INTENTIONS, OPPORTUNITIES AND OUTCOMES

The Impact of Commonwealth Involvement in Australian Schooling

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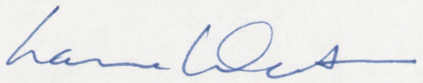
I hereby declare that, except where acknowledgments are given, this thesis is entirely my own original work. I also declare that this thesis does not contain any material previously submitted for a degree at any University either by myself, or to the best of my knowledge, by any other person.



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Louise Watson Date

Dedicated to my father and my mother,
James Watson and *Margaret Watson.*

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Abstract

Public and private investment in education plays an important role in a nation's social and economic development as well as influencing the life-time earnings and opportunities of individuals. When demand for education increases, governments must make policy decisions about the nature and purpose of public investment in all levels of education. As school education is the most important foundation for investment in human capital, public investment in schooling is justified in order to maximise the distribution of educational attainment. Although State and Territory governments are responsible for the management and delivery of schooling in Australia, the Federal government has a responsibility to pursue national policy objectives in school education. Since 1973, Commonwealth involvement in schooling has increased significantly but the effectiveness of Federal funding has been undermined by poor definition of policy objectives, inadequate monitoring of program performance and the split in funding responsibilities between two levels of government. Commonwealth involvement in the recurrent funding of schools has influenced the structure of education provision and compromises the capacity of State and Territory governments to develop consistent schools funding policies for both public and private providers. These anomalies in schools funding policy could be addressed if responsibility for funding both government and non-government schools were returned to one level of government. The Federal government should therefore withdraw from the recurrent funding of government and non-government schools. The three billion dollars of specific purpose payments currently allocated under the Commonwealth's General Recurrent Grants (GRG) Program should be transferred to untied Financial Assistance Grants administered by the Commonwealth Grants Commission. The Federal government could continue to pursue its national policy objectives through specific purpose payments of targeted and capital assistance. Although such a reform would meet with resistance from non-government schools and some Education Ministers, the Commonwealth's withdrawal from recurrent schools funding would improve public accountability for school education expenditure in Australia.

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Abbreviations

ABS	Australian Bureau of Statistics
ACER	Australian Council for Educational Research
ACSSO	Australian Council of State Schools' Organisations
AEC	Australian Education Council
AGPS	Australian Government Publishing Service
AGSRC	Average Government Schools' Recurrent Costs
ALP	Australian Labor Party
ANAO	Australian National Audit Office
APC	Australian Parents' Council
ATF	Australian Teachers' Federation
ATU	Australian Teachers Union
BGA	Block Grant Authority
COAG	Council of Australian Governments
CSC	Commonwealth Schools Commission
CSIR	Council for Scientific and Industrial Research
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CERI	Centre for Educational Research and Innovation
DEET	Department of Employment, Education and Training
DEETYA	Department of Employment, Education, Training and Youth Affairs
DLP	Democratic Labour Party
DOF	Department of Finance
EBA	Enrolment Benchmark Adjustment
EPAC	Economic Panning Advisory Council
ERI	Education Resources Index
FAGs	Financial Assistance Grants
GNFP	Gross Non-Farm Product
GRA	General Revenue Assistance
GRG	General Recurrent Grants
GTE	Government Trading Enterprise
MAB-MIAC	Management Advisory Board - Management Improvement Advisory Committee
MCEETYA	Ministerial Council on Education, Employment, Training and Youth Affairs
NBEET	National Board of Employment, Education and Training
OECD	Organisation for Economic Co-operation and Development
SC	Schools Commission
SES	Socio-economic status
SEETRC	Senate Employment, Education and Training References Committee
SPI	Schools Prices Index
SPP	Specific Purpose Payment
TEAS	Tertiary Education Assistance Scheme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
VPP	Victorian Parliamentary Papers

Introduction

> Although the federal system in Australia has been a perennial source of debate and discussion, little attention has been paid to the way in which the division of responsibility affects either the formulation of public policy or the delivery of particular kinds of government-provided goods and services.
>
> Galligan, B., Hughes, O. and Walsh, C. (1991). *Intergovernmental relations and public policy*. Sydney: Allen and Unwin. p. 8.

This thesis is a study of the impact of the Australian Federal government's involvement in school education. It describes the origins of Federal government intervention and examines the outcomes of that involvement. On the basis of this analysis, the thesis argues for a radical change to Commonwealth financial arrangements for schools.

The author recognises that "public policy is different in a federation" (Davis et al. 1993: 67), and that characteristics of the Australian Federal system have influenced the Commonwealth's role in schooling. Australian Federalism has evolved in such a way that the Federal government raises more revenue than it can spend, and this has increased its capacity to intervene in public policy. As Galligan et al. point out, "the orthodox view is that the commonwealth has been the leading federal player because of its fiscal dominance" (1991: 5). But although the Federal government's involvement in school education has been characterised by high levels of expenditure rather than inter-governmental co-operation, Federal intervention in schooling did not arise simply because the Commonwealth had the financial *capacity* to become involved. While it is widely assumed that "the development of the fiscal power of the Federal government at the expense of the States was a powerful factor precipitating it into a direct role in Australian education" (Tannock 1969: 8), the balance in Federal/State financial relations was secondary to the political events which led to Commonwealth intervention in schooling. This thesis also challenges the conventional view that financial hardship impelled the States to request financial assistance from the Commonwealth for schools (see Mathews 1983, Smart 1978, Tannock 1969).

Although I examine the policy rationale for the current levels of Federal involvement in schooling, the research was not driven by a desire to reform Federal/State financial relations. This issue has attracted academic debate and disagreement (Maddox 1991, Sharman 1990, Walsh 1991), and the case for reform is not sustainable on theoretical grounds alone. The Australian Constitution appears to be deliberately vague about the Commonwealth's role in distributing its financial surplus (Galligan 1995: 221) and a degree of vertical fiscal imbalance in Federal financial relations may be defended on efficiency and equity grounds (Breton 1996: 198-227). The primary goal of this research is to evaluate Commonwealth involvement in school education from a public policy perspective. This involves an exploration of the policy rationale for government involvement in schooling, a judgement about the effectiveness of Federal government involvement and an assessment of the impact of Federal funding on Australian schools.

Public policy is characterised by policy areas or fields of study within which detailed policy analysis takes place (Parsons 1995: 31). Within these specialisations, analysts try to understand "how, why, and to what effect . . . governments pursue particular courses of action and inaction" (Heidenheimer et al. 1990: 3). I aim to answer this question with reference to the Australian Federal government's involvement in schooling.

In discussing "how" the Federal government chose to act in regard to schools, I acknowledge the Constitutional limitations on Commonwealth involvement and the way in which this influenced the development of a Federal schools policy. Birch (1975) provides a definitive account of the statutory limitations on Federal involvement in education, and of events which have undermined the legal barriers to Commonwealth intervention in education during this century. However, the history of Commonwealth intervention in schooling is not simply about overcoming legal obstacles to Federal involvement. As illustrated in Chapter Two, the Commonwealth became involved in school education decades before the "benefits to students" power was included in the Constitution and, since 1946, the Federal government has not used its "benefits to students" power as a pretext for direct funding of schools. Commonwealth schools funding continues to be paid to and through the States under Section 96 of the Constitution.

I address the question of "why" the Federal government became involved in schooling through an historical account of the growth of Commonwealth programs and policies and the factors that precipitated Commonwealth intervention (Chapter Two). Prior to the 1960s, Federal schools programs were of an *ad hoc* nature, targeted to achieve limited policy objectives, and carried out by State Education Departments on behalf of Federal agencies. The Federal government showed no interest in funding schools until the Catholic campaign for state aid provided Prime Minister Menzies with an irresistible opportunity to gain political advantage in 1963. Previous studies have found that political considerations were the major determinant of the nature and scope of Commonwealth intervention in schools (Albinski 1966, Anderson 1993, Hogan 1978, Marginson 1993, Praetz 1982, Smart 1977, Tannock 1969).

In considering "to what effect" the Federal government has pursued its course of action (and inaction) in regard to schooling, this thesis departs from previous analyses of Commonwealth involvement. It moves beyond an historical account of Federal involvement to examine the policy rationale for the Commonwealth schools funding. The first chapter of the thesis approaches the policy basis for Federal intervention by asking why governments initially became involved in school education provision. The commencement of government intervention in schooling last century was part of a general trend towards "collectivisation in the public domain (which) took place at different times in various industrial nations, but always for the reason that certain kinds of problems were no longer seen as purely private" (Parsons 1995: 5). This "revolution in government" was characterised by an increase in government interest in many areas of social policy (Sutherland 1972). In Australia, whereas colonial governments were well placed to achieve the social policy objectives which precipitated government involvement in schooling, the subsequent development of economic policy goals implied a role for the Federal government.

Improving the efficiency and effectiveness of government service provision in school education has been a major concern of Western governments during the past decade (OECD 1993, 1995, Scales 1993, Steering Committee for the Review of Commonwealth/State Service Provision 1995). In both the United States of America and in Australia, there has been mounting scepticism about the benefits of increased levels of expenditure on schools (Clare and Johnston 1993, Hanushek 1986, National Education Summit 1996). In Chapter Three, I discuss the impact of Commonwealth involvement in terms of school performance. I examine the Commonwealth's attempts to monitor the efficiency and effectiveness of its own expenditure and its efforts to improve public accountability for the educational outcomes of schooling.

The most significant policy impact of Federal involvement in schooling has been to increase the size of the non-government schools sector (Anderson 1992, Hogan 1984, Marginson 1993). Chapter Four discusses this effect of Commonwealth intervention in terms of fiscal policy goals and the quality of school education outcomes. I illustrate the impact of Federal funding on private schools and highlight the anomalies created by the Commonwealth's arrangements for distributing resources between schools. Although some studies of private schooling in Australia have discussed the Commonwealth's involvement in terms of school quality (Anderson 1992, Williams 1985, Williams and Carpenter 1990), none has examined the links between school inputs and the production of education outcomes. My discussion of the educational outcomes of public and private schools in the context of patterns of Federal government expenditure provides the basis for an objective evaluation of the impact of Commonwealth involvement.

The fundamental question of the future of Federal government involvement in schooling is discussed in Chapter Five, in the context of reforming Federal/State financial relations (Noon 1991, Officer 1996). While there are strong arguments for changing the existing funding arrangements, several obstacles stand in the way of the reform of Commonwealth funding for schools. Although governments have an electoral mandate to implement their policies, they also have a responsibility to be accountable for their decisions in allocating public resources. It is more difficult to monitor public accountability for outlays when funding is transferred between levels of government. In the concluding Chapter Six, I argue that public accountability for education expenditure would improve if the Commonwealth withdrew from the recurrent funding of government and non-government schools.

Wildavsky describes policy analysis as "an applied sub-field whose contents cannot be determined by disciplinary boundaries but by whatever appears appropriate to the circumstances of the time and the nature of the problem" (1979: 15). In undertaking this research, I have drawn on the disciplines of economics, politics and history as well as education and policy analysis. Whereas the history of Federal involvement in schooling is primarily a political story, the legitimacy of Federal intervention is discussed in terms of social and economic policy goals. Educational research from Australia and overseas was useful in developing a model for measuring school performance and for assessing the impact of Federal intervention on school quality. The public policy literature provided a framework for understanding the provision of school education within Australia's federal system. Reviewing the project from a policy perspective enabled me

to envision a future for Commonwealth involvement in school education which was free of the limitations of traditional discipline-based research.

The guiding principle of this work has been E.H. Carr's description of political science as a discipline that has been created to serve a purpose, within which the purpose inevitably becomes part of the analytical process (Carr 1939: 7). Although ideas are a prerequisite for analysis, Carr emphasises that purposive investigations are fruitless unless ideals are balanced with a realistic appreciation of the facts, and an understanding of the causes and consequences of historical events. I hope this thesis lives up to Carr's definition of the academic project.

Chapter One

Why governments invest in school education

> The education of the common people requires, perhaps, in a civilised and commercial society, the attention of the public more than that of people of some rank and fortune.
>
> Adam Smith (1776) *The Wealth of Nations*, Vol 2 p.269.

Introduction

In this chapter, I will examine patterns of government expenditure on school education in the context of the broad but fundamental policy objectives of social stability and economic growth. The chapter charts the major developments precipitating government involvement in an activity that was once privately funded and explores the policy rationale underlying those developments. However, the actions – and inaction – of government can never be explained in terms of public policy goals alone. Economic and political conditions are a major influence on government decision-making in Western democratic societies. In Australia, governments are also constrained by the division of powers within the Federal system. The Commonwealth government is primarily responsible for economic policy whereas State governments are largely responsible for social policy. As the Federal government does not manage any school systems, it cannot pursue its schooling policies without the cooperation of State governments. This split in policy and management responsibilities has influenced patterns of government expenditure on schooling in Australia.

1 Social policy goals

When the Australian colonies federated in 1901, it was unquestioned that the State governments should remain responsible for education policy. At the time, government interest in education was confined to the achievement of social rather than economic policy goals. The economic significance of school education was not recognised as a policy issue until the 1960s when human capital theory highlighted the relationship between educational achievement and economic development.

1.1 Social stability

Two hundred years ago, governments played no role in education provision. Education was a private activity and the few "charity" schools run by non-government organisations were treated with suspicion (Silver and Silver, 1974). The public provision of education for children in pre-industrial England was considered unnecessary. As industrialisation took hold, however, some people suggested that the government should provide mass education to deliver basic skills and practical knowledge to the working classes. In 1776, the philosopher Adam Smith argued that

the division of labour in industrial societies resulted in the minds of labourers being so dulled by repetitive tasks that they were no longer able to participate fully in society. A lifetime of repetitive work produced a "torpor of mind" that rendered an industrial labourer "not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble or tender sentiment, and consequently of forming any just judgment concerning many of the ordinary duties of private life" (Smith 1776, Vol. 2: 267). Smith advocated the establishment of a system of parish schools which, if not free, were cheap enough so that "children may be taught for a reward so moderate that even a common labourer may afford it" (270). Adam Smith did not argue that education had any economic purpose. He was primarily concerned to remedy the effect of industrialisation on social life. He predicted that existing social structures would break down and that education was needed to preserve social stability, in the belief that "an instructed and intelligent people . . . are always more decent and orderly than an ignorant and stupid one" (Smith 1776, Vol 2: 273).

Adam Smith's views on the need for public education were vindicated during the early decades of the 19th Century when the economic upheaval caused by the industrial revolution began to threaten the stability of social life. In 1819, a parish priest in Manchester summed up the social consequences of economic change:

> . . . within the space of the last half century, the whole frame and mechanism of society, in every large and commercial district, has undergone a thorough and most material change . . . The population of the town was no longer confined to the number of its native inhabitants, but large multitudes of strangers were drawn together from distant places, for the purpose of traffic, or in search of employment and subsistence . . . In a large and crowded manufactory, it was impossible for the master to exercise the same patriarchal influence and authority over the moral character and conduct of those who were in his employ . . . (Reverend Allen, 1819 quoted in Silver and Silver 1974: 4).

The original policy rationale for government involvement in school education was to inculcate consistent standards of behaviour among the general population. The government found allies for this task among established churches, particularly the Church of England which feared a diminution of its influence as a result of changes in the social order. Mass education was seen as a means of maintaining social order and restoring the moral authority of the church. When the Church of England established its system of primary schools throughout the United Kingdom in the 1830s, its policy goals were to restore respect for social and religious institutions (Silver and Silver 1974).

> The Object in forming Establishments of this nature . . . is, to train the Infant Poor to good and orderly habits, – to instil into their minds an early knowledge of their civil and religious duties, – to guard them, as far as possible, from the seductions of vice, – and to afford them the means of becoming good Christians, as well as useful and industrious Members of Society (*The Church of England's National Society for Promoting the Education of the Poor in the Principles of the Established Church, 1828* in Silver and Silver 1974: xi).

By the 1830s the established churches in England and its Australian colonies had begun to provide mass education systems in an attempt to reach all families, particularly the working poor (Austin 1961, Silver and Silver 1974, Sturt 1967). As governments began

to develop their own policies for schooling, they supported the efforts of the Churches, who, for their part, lobbied hard to retain control over school education provision. By 1833, the Church of England was receiving government financial assistance for its schools and the system of providing government subsidies to church and private schools was replicated in the Australian colonies[1]. Eventually, concern about the effectiveness of the subsidies to the Churches led to government involvement in the management of school education. Government-run school systems have now existed in England and Australia for over one hundred years (Austin 1961, Sutherland 1973, Sturt 1967).

While governments supported the churches as education service providers, government interests went beyond a concern about public morality. Politicians who supported the principle of universal education in the 19th Century also saw it as a means of reducing crime, quelling potential social unrest and creating popular support for the system of government. As the century passed, the level of bi-partisan political support for universal schooling grew, based on its potential to solve a range of social problems of concern to all classes of society[2].

As the United Kingdom and its Australian colonies moved towards more democratic systems of government, the appropriate exercise of democratic rights and responsibilities assumed priority as a policy rationale for government involvement in education. Although being literate and numerate is not a pre-requisite for democratic participation, elected politicians have always believed that higher rates of literacy and numeracy make democracy work more effectively. Prior to 1880, the emphasis of this policy goal was a "negative or regulatory reaction to democracy – the endeavour to curb any tendency to employ democratic powers to the detriment of the existing social order" (Ling 1984: 102).

During the 20th Century, advocates of participatory democracy championed the cause of universal education to enhance individuals' capacity to exercise their political rights (Callan 1997, Dewey 1929, Russell 1942). John Dewey's "progressive movement" argued that the school should be a microcosm of democratic society (Tyack 1967). The link between education and democratic forms of government remained important up to and during the Second World War. The threat posed by the rise of communist and fascist political regimes in Europe strengthened the view that mass education could be a bulwark against totalitarianism. In 1939, an American scholar warned,

> If American schools fail democracy in the great crisis that now confronts it, all will be lost. For the second time in our history, education must be re-directed and re-fashioned in order that it may effectively serve democracy in the new social order. . .(Newlon 1939: 230).

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[1] In Australia, the Protestant and Catholic churches fought hard to secure a role as education providers, and undermined successive government attempts to provide education services during the first hundred years of English occupation (Austin 1961).

[2] Austin observed of the colonial parliaments that "Crime . . . was a matter of great moment to these respectable middle-class men, and by an interminable quoting of statistics designed to show the connexion between ignorance and crime, they succeeded in making one another's flesh creep at the thought of the lawlessness which lay all around them" (Austin 1961: 178).

In sum, the idea of using education to prepare people for citizenship has existed for well over a century. The advent of universal suffrage in democratic political systems has served to strengthen bi-partisan political support for universal schooling. Educating people for "citizenship" remains a major policy rationale for government involvement in schooling. In 1973, the OECD recognised that the development of an interest in the political process, and a willingness or desire to participate in a political system were policy goals of all educational systems. (OECD 1973: 39). In Australia, the Commonwealth Schools Commission stated in 1987,

> . . . the health of our democracy depends on all citizens, through education, having the best possible understanding of how society functions, and how, individually and collectively, citizens can participate in and contribute to its future (Commonwealth Schools Commission 1987: 1).

The seventh goal of the *Common and Agreed National Goals for Schooling in Australia* is "to develop knowledge, skills, attitudes and values which will enable students to participate as active and informed citizens in our democratic Australian society within an international context" (AEC 1989). The fundamental policy objective of Australian governments is to enhance social stability through education provision. However the concept of "citizenship education" is now more complex than the simple goal of universal literacy that prompted government involvement one hundred years ago.

In 1989, a Senate report in Australia raised alarm in political circles about the perceived failure of schools to prepare young people for their responsibilities in a democratic society. (Senate Standing Committee on Employment, Education and Training 1989). The Senate report questioned the extent to which students are adequately prepared for political participation in terms of their understanding of the machinery of government. In response, a Federal government initiated an inquiry into the role of schools in educating young people for "citizenship" (Civics Expert Group 1994). In response to this report, a Commonwealth Civics and Citizenship Education Program was introduced to promote understanding of the political institutions among students at all stages of schooling (Kemp 1997b: 7).

While the concept of civics and citizenship education is based on improving students' awareness of the political system, the fundamental role of school education in promoting social stability is achieved through the universal achievement of literacy. Literacy remains the primary policy objective of mass education provision. The social costs of inadequate literacy levels are high, according to a report commissioned by the Federal government during UNESCO's International Literacy Year.

> . . . inadequate literacy skills restrict the ability of individuals to exercise informed citizenship, participate in their local communities and use their abilities and talents. Low levels of literacy shut people out from important areas of human experience and thought, tend to make them dependent rather than independent, reduce confidence and may contribute to keeping them in poverty (Hartley 1989: xi).

The Australian Federal government places great emphasis on the fundamental role of schools in promoting universal literacy and numeracy. In 1994, the Commonwealth

government commissioned a national survey of Australian Literacy skills (Commonwealth of Australia 1994: 195). The Commonwealth National School English Literacy survey has since provided national benchmarks of literacy achievement among students at several stages of schooling (Kemp 1997c, Management Committee for the National School English Literacy Survey 1997).

The achievement of basic literacy skills remains a high priority of governments throughout the world. Following the *Education for All* Declaration by member countries in 1990, UNESCO set up a set of specific activities to promote basic skills for all people. The priority of most nations and international agencies supporting the program was to focus on the provision of primary school education. Universal literacy remains the fundamental educational outcome aiming by any government seeking to promote social stability through mass education provision.

1.2 The government's role

For the first hundred years of Australia's occupation by Europeans, schooling was provided by non-government agencies. The government's role was limited to the provision of subsidies to the Churches and various community groups that established and managed the schools[3]. The provision of subsidies led to increased government involvement in monitoring the schools that were receiving support, and the development of regulations governing their conduct. By the second half of the 19th Century, most colonial governments vested control of all types of schools that drew on public funds in a central Board or Commission[4].

In the 1860s when colonial governments wanted to fund an expansion of schools, the non-government providers were unable to deliver education to the majority of the school-aged population. The effect of rapid population growth and the dispersal of settlers into the interior following the *Selection Acts* made it impossible for the Churches and private interests to carry out their task of providing universally accessible schools. Of the system in New South Wales, where boards of Commissioners were responsible for allocating government funding, Austin concluded,

> despite the brave (and equivocal) statements in their annual reports, it was obvious that they were, at best, educating half the children of school age, and that the denominational schools to whom they were distributing aid were diminishing in number and contracting upon the cities almost as rapidly as the population was increasing and moving into the interior (Austin 1961: 184-185).

As colonial governments lost confidence in the capacity of the private sector to deliver adequate education services, they assumed control over school education provision. Between 1872 and 1893, each of Australia's six colonial governments legislated to take control over public education and government-run school systems were established in

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[3] While colonial governments encouraged the establishment of government-funded schools, these schools were usually managed by community-based committees, and dependent on locally raised resources as well as government assistance (see Austin 1961 Ch. 1-5).

[4] This trend in administration of non-government schools prompted the Catholic Church to denounce public schooling and to prepare to maintain its own system of schools independent of government assistance (Austin 202-213).

every colony[5]. With a few exceptions, public funding for current purposes was withdrawn from private schools, and the government specified conditions for the registration of private schools[6].

By the turn of the century, State governments appeared diligent in performing their legislated duty to provide school education that was "free, secular and compulsory". The commitment to universal access was carried out by funding schools with as few as six children in outlying areas, providing subsidies for privately employed teachers for smaller groups, as well as providing correspondence schools (Cunningham et al. 1939: 19). While some education authorities charged nominal fees for their State schools, by the time of Federation, free primary school education was generally available throughout Australia. In 1898, the Victorian education system was 75 per cent larger than in 1872, catering to almost a quarter of a million students (*Report of the Minister of Public Instruction, 1898-1899).* At Federation, colonial governments were spending an average of ten per cent of total outlays on their education systems (Ratchford 1959)[7].

The government's policy objectives remained modest – given the high levels of current and capital outlays required to provide universal public education. In the 19th Century, Adam Smith's definition of the extent of the government's policy interest remained apt:

> . . . though the common people cannot, in any civilised society, be so well instructed as people of some rank and fortune, the most essential parts of education, however, to read, write and account, can be acquired at so early a period of life, that the greater part even of those who are to be bred to the lowest occupations, have time to acquire them (Smith 1776).

The primary aim of government investment in universal school education was to teach basic literacy and numeracy. In the Census of 1881, 26 per cent of the New South Wales population had been unable to read. By 1901, only 8 per cent of the population over five years of age was unable to read. Government statisticians monitored literacy levels by the proportion of people who signed marriage registers with a mark. In 1857, 28.4 per cent of the people who married in New South Wales were unable to sign the marriage register. By 1880, this had dropped to 6.7 per cent, and by 1904 to less than 1 per cent. This "marvellous" progress was attributed to the efficacy of the government's educational system, leading the Government Statistician in New South Wales to proclaim, "Great as has been the material progress of the State, its intellectual advancement has been much more rapid" (NSW Government Statistician 1906: 547).

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[5] The "free, secular and compulsory " Education Acts were instituted in the following order: Victoria 1872; Queensland 1875; South Australia 1875; New South Wales 1880 ; Tasmania 1893; and Western Australia 1893 (Austin 1961). In the United Kingdom, government intervention came in the form of the Elementary Education Act 1870.

[6] The exception was public support for six grammar schools in Queensland. The registration requirements for private schools usually related to minimum accommodation standards (Austin 1961).

[7] Austin (1961: Ch. 7) details many shortcomings of the colonial system of education administration in its early years, particularly in the area of teacher training and remuneration, He also states that there was strong community opposition to compulsory schooling, particularly in country areas and the governments' machinery of enforcement was so weak that that no colony had an effective system of compulsory schooling until the 20th Century.

In Victoria, the proportion of people signing the marriage register with marks in 1902 was only 0.6 per cent, a source of some pride to the Victorian Government Statistician.

> Compared with England and Wales, Scotland and Ireland, where the proportions signing with marks were 2.70, 2.37 and 11.94 respectively, the elementary education standard is very high in this State, which in this respect occupies the highest position in Australasia. (Office of the Government Statist, 1902: 128).

Today, the definition of literacy is more sophisticated than the ability to sign one's name. Although UNESCO defines literacy as the ability to "read and write and understand simple messages" (UNESCO 1993: 47), Western definitions of literacy are more complex, requiring people to interpret, create and respond to a range of print materials (Christie 1990: 21). Even by contemporary standards, Australian primary schools are still successful in achieving universal standards of literacy and numeracy, thereby fulfilling the policy goal for which they were established. In cases where students cannot read, write and count by the end of primary schooling, close examination usually reveals the cause to be disrupted schooling or attendance at many different schools (Wickert 1989). In other words, *absence* from continuous schooling results in poor literacy and numeracy achievement, whereas regular attendance at an Australian primary school is a strong predictor of literacy and numeracy competence. The State governments' establishment of large primary school systems, their control over curriculum, their regulation of non-government schools, and the legal framework of compulsory school attendance have been effective instruments for achieving the social policy objectives for schools.

The success of State governments in achieving the social objectives for schooling may also be due to the clarity of their policy goals. The role of primary schools as agents of literacy and numeracy development has been clearly defined from the beginning. Primary school education remains focused on this goal and the outcomes are relatively easily measured – both by teachers and by system management. Management of primary schooling in Australia has also remained the policy responsibility of one level of government.

1.3 The neglect of secondary schooling

In the 19th Century, because the social policy goals of education could be met through the provision of primary schooling, governments never sought to create a comprehensive system of secondary education.

> In England, on the whole, the firmly held theory was that the state . . . had no concern with secondary education, and that it should certainly not be paid for from public funds . . . (Sturt 1967: 385)[8].

When the Australian colonies federated in 1901, only a few State secondary schools existed, and the bulk of government resources was spent on primary schools[9]. State

[8] Sturt points out that technical education was given a higher priority than secondary education - for economic reasons.

governments' financial commitment to secondary schools fluctuated with economic conditions. In response to the 1929 economic depression, when the Commonwealth reduced general purpose grants, States cut their recurrent expenditure on education, particularly at the secondary level.

> The hardest hit of all the branches of State education were the secondary school systems. Secondary school scholarships – a principal source of high school graduates – were reduced by as much as twenty per cent, and as a further discouragement to young people to stay on a school past the age of fourteen, tuition fees were introduced in most States. The depression then, had the effect of reducing the numbers of students in State secondary schools – at a time when they should have been increasing rapidly – thus encouraging the development of a system of education which made secondary schooling a domain of the economically privileged or intellectually extraordinary (Tannock 1969: 184).

Until the mid-1940s, fees were levied for secondary education in all State schools (Waddington et al. 1950: 55-56). Yet even after secondary school fees had been abolished, a student's likelihood of completing secondary school was determined more by financial circumstances than intellectual merit. In 1944, the Universities Commission noted "many who could benefit by completing the full secondary school course were prevented from doing so by financial circumstances" (Tannock 1969: 340). In 1957, the Murray report on the financial needs of universities stated that "the number of children lost to secondary education through leaving school early is very large and . . . among these there must be large numbers of intellectually able pupils" (Murray 1957: par 230).

Within Australia's federal system, States had no financial incentive to encourage participation in secondary schooling. When students left the State school system to find jobs or to attend private secondary schools, they ceased to be a burden on State budgets. If early school leavers became unemployed, the provision of social security benefits was a responsibility of the Federal government. Although the legislated terms of compulsory education fell within the range of four to fourteen years of age, until the 1950s completion of primary school was usually sufficient grounds to gain exemption from further years of schooling (Ling 1984: 48). In the 1940s, States spent only 21 per cent of their school education budgets on secondary education compared to 79 per cent on primary schools (Mathews 1972: 80). By the early 1960s, the proportion of States' recurrent expenditure going to secondary schools had risen to 39 per cent, and by 1973, almost 50 per cent of school spending was allocated to secondary schools (Karmel 1972, Table 4.10)[10].

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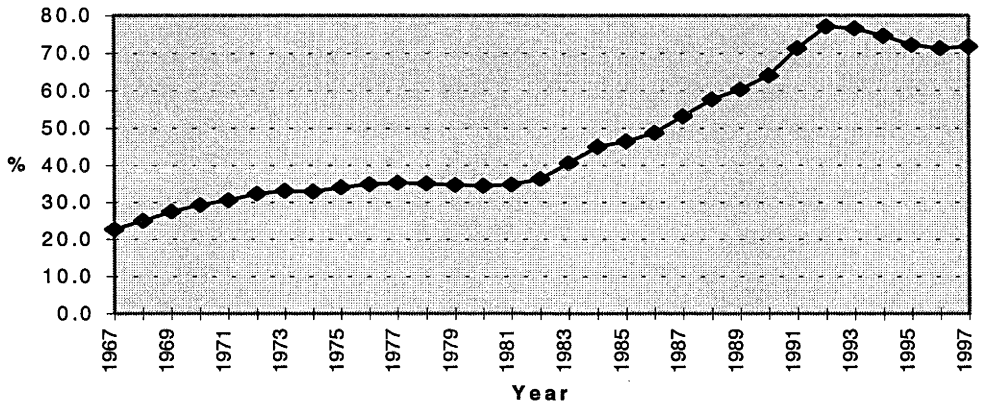
[9] In Austin's opinion, the absence of State systems of secondary education, "starved the universities of talent, and condemned any effective system of technical education to failure" as well as depriving schools of educated teachers (Austin 1961: 243).

[10] Technical education also remained predominantly a private investment. Although there were economic arguments for the provision of technical education, it was not generally accepted that the costs of work-related training should be borne by government until the Second World War, when the Commonwealth invested heavily in technical education in a belated attempt to develop skilled manpower for war-time industries (Ling 1984, Tannock 1969: 209).

For the first half of the twentieth century, the completion rate for secondary education in Australia was very low. In 1944 less than 6.5 per cent of Australian children passed the leaving-level examination (Tannock 1969: 340). However in the following decades, final year retention rates began to rise, in response to increased standards of living and changing economic conditions (Connell 1962: 3). By the late 1950s, the final year school retention rate had risen to around 11 per cent in most States (Murray 1957: par 297, *Report of the Victorian Minister of Education for the Year 1965-66*). Demand for senior secondary education increased in the 1960s, as rising living standards enabled more families to forego the incomes of children completing secondary school. By 1968, the national final year retention rate had increased to 26 per cent. Final year school retention then increased steadily between 1968 and 1992, as illustrated in Figure 1.1.

Figure 1.1 Year 12 retention rate, Australia 1967 to 1997



Sources: DEET(1993) *Retention and Participation in Australian Schools;* ABS Cat No. 4221.0. *Schools Australia,* various years.

In common with most OECD countries, Australia's educational systems were placed under pressure by the influx of students resulting from the post-war baby boom (OECD 1976: 22). Demand for secondary schooling increased dramatically in the late 1950s when the baby boom generation entered secondary school. State secondary education systems were ill-prepared for the combined impact of the baby boom, higher rates of secondary retention, and post-war migration. In a frank admission of the "formidable material problems" confronting the Victorian Secondary Education system, the Chief Inspector of Secondary Schools informed Parliament,

> For the past ten years, the year 1959 has been looked to with foreboding, since the birth rate statistics for the post-war years indicated that the first great wave of post-war babies would descend on the secondary schools in this year. Even then, it was difficult to foresee the effects of migration and, in particular, the concentration of so many new Australians in Victoria . . . (J.W. Mills, Chief Inspector of Secondary Schools, in *Report of the Minister for Education for 1958-59).*

During the four years between 1956 and 1960, the secondary student intake in Victoria increased by 44 per cent. To meet the demand for places, over one hundred new high schools were built in Victoria between 1954 and 1960, bringing the total number to 167

secondary schools in 1960. The pressure on existing capital facilities led to the creation of a technical school system so that Trade schools could offer tuition to full-time students at the secondary level. While Mills noted this development with regret, he admitted it was necessary to alleviate the accommodation shortages in the State high school system *(Report of the Minister of Education for 1958-59)*.

In 1957, the State Directors of Education, concerned about "securing additional funds for the growing secondary school population" proposed the introduction of scholarships for students in senior secondary schools and technical education (Spaull 1987: 105). The suggestion was endorsed by State Education Ministers at the Australian Education Council meeting in 1958 who resolved,

> That it be suggested to the Commonwealth Government that in order to implement the intention of the Murray report to the fullest extent the Commonwealth consider the establishment of a bursary scheme along the lines of the Commonwealth Scholarship Scheme to provide financial assistance to enable secondary students to complete the last two years of secondary education (Spaull 1987: 105).

In 1961, State Education Ministers, through the Premier's conference asked the Federal government for direct financial assistance to help meet the costs of education provision. Their manifesto, *A Statement on some aspects of Australian education* cited the economic importance of education as a reason for Commonwealth involvement and said that schools needed between 20 and 35 million pounds a year to overcome deficiencies between immediate needs and available funds[11]. Although the Prime Minister's initial response had been to reject the idea of Commonwealth assistance to schools, in a pre-election policy speech in November 1963, Prime Minister Menzies promised to introduce 10,000 scholarships for senior secondary students and a capital grants program for school science facilities. Following its election victory, the Federal government provided some 12 million pounds in direct assistance to students and schools in its 1964-65 Budget. A senior secondary scholarship scheme provided an annual grant of 100 pounds towards fees and books and 100 pounds for living expenses, without a means-test, to students at both private and State schools. An allocation of 10 million pounds for science facilities included 5 million pounds for secondary schools (both private and State) and 5 million pounds for technical schools.

The provision of Commonwealth assistance had little impact on senior secondary retention. The rate of participation in senior secondary education remained low. Three quarters of Australian students did not complete secondary school in 1967, and most of those who did were supported by private resources. The Commonwealth secondary scholarships scheme covered less than 15 per cent of senior secondary school students, and the remaining 85 percent of students relied upon private resources or State government teaching bursaries. As Commonwealth scholarships were not means-tested, the scholarships were "won overwhelmingly by students who would have continued

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[11] As State Education Ministers wavered in their resolution to make direct demands upon the Commonwealth, the estimate was scaled down from 35 million pounds in 1961 to 20 million pounds in 1963 (Spaull 1987: 115).

their education anyway. . ." (Karmel 1973: par 3.15)[12]. In the public school system, students from high socio-economic backgrounds were five times more likely to complete Year 12 than students of low socio-economic backgrounds (Moore 1973). A disproportionate number of senior secondary students attended fee-paying private schools. In 1967, private schools enrolled more than 35 per cent of students in the final two years of secondary school while they enrolled only 23 per cent of the total school population (ABS Cat. No. 4221.0).

All OECD countries experienced a rapid growth in public outlays on education during the 1960s (OECD 1976). In Australia, State governments carried the major burden of providing increased public funding for schools. States' expenditure on education as a proportion of their consolidated revenue increased from 18 per cent in 1960 to 23 per cent in 1968 (Fitzgerald 1970: 35). Between 1963 and 1971, States increased their outlays on secondary education by 152 per cent in real terms (Karmel 1973: Table 4.10).

While State systems found the resources to build and staff new secondary schools in the 1960s, they were unable to pursue the principle of "free, secular and compulsory" education at the senior secondary level. In the absence of a legislative mandate requiring students to attend school beyond the age of fifteen years, State education systems accepted that for most students, the completion of senior secondary education required private resources. A disproportionate number – over one third of final year secondary students – completed their secondary education in private schools. The role of private providers was supported by the State governments' reintroduction of recurrent subsidies funding for private schools in the late 1960s. Although the decision to fund private schools was primarily the outcome of a successful political campaign, it was justified in terms of alleviating accommodation pressure on State education systems. At the second reading speech of the *Educational Grants Bill* in 1967 – the first Act to restore state aid to private schools – the Victorian Minister for Labour and Industry, Mr Rossiter announced that funding for private schools was needed "to prevent the State system from being overburdened to the point of possible embarrassment" *(Victorian Parliamentary Debates 1967-68,* Vol 287: 306)[13].

As the major policy goal of public education was to promote social stability through universal literacy and numeracy, the first priority of State governments was to deliver education services during the compulsory years. The financial burden of carrying out this responsibility was so great during the post-war years that State education systems were ill-equipped to expand senior secondary provision. The completion of secondary school therefore remained a private investment undertaken by students with sufficient private resources to meet the cost of tuition, living expenses and income foregone by staying on at school. The Commonwealth's contribution made little difference to the capacity of States to accommodate senior secondary students. While Commonwealth capital grants assisted in the provision of science facilities, Commonwealth scholarships reached less than 15 per cent of total eligible students and many of the recipients already

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[12] Fensham (1972) demonstrated that private school students obtained a disproportionate share of Commonwealth scholarships.

[13] While the pressure of student enrolments was the policy rationale given in parliamentary debates for this move, there were strong political forces behind the introduction of funding for private schools at both the State and the Commonwealth level (discussed in Chapters Two and Five).

had the private means to continue their education (Wilkes and Noble 1971). Although an economic rationale for increased participation in post-compulsory education emerged in the 1960s, the Commonwealth government was slow to take responsibility for the economic policy goals of Australian schooling.

2 Economic policy goals

While the social benefits of education are significant, schooling also contributes to the achievement of economic policy goals.

> Industrial societies place considerable emphasis on the contribution which education is able to make to economic development (OECD 1973: 48).

To some observers, emphasising the economic purposes of education implies a narrow instrumentalism that seeks to make schools the vehicles – and the victims – of micro-economic reform (Lingard, O'Brien and Knight 1993, Pusey 1991). However this thesis will argue that the most powerful policy rationale for government funding of education has come from the work of 20th Century economists, particularly those who formulated human capital theory. There is a tendency in the literature to confuse the policy implications of human capital theory with the policies and programs subsequently established by governments. This has led to a "human capital orthodoxy"[14] which does not necessarily reflect the principles of human capital theory. Below I set out the original propositions of human capital theory (Section 2.1) as well as the policy implications of the theory (Sections 2.2 and 2.3). This is necessary to differentiate human capital theory from the policies which have been subsequently implemented in its name. In the final section, I discuss the policy response to human capital theory in Australia.

2.1 Human capital theory

In the late 1950s, a group of American economists studying the sources of economic growth found a substantial unexplained growth in the national income of many countries after accounting for the growth in physical capital and labour. They concluded that rising levels of education made a direct contribution to economic growth through the higher productivity generated by workers. In other words, economic growth could be attributed in part to an increase in the stock of *human* capital in addition to physical capital. They assumed that the higher wages paid to people with more education was evidence of the higher productivity generated by educated workers. It was calculated that the monetary return to individuals from spending time and money in the pursuit of education was far greater than the costs (in terms of tuition fees and foregone income) of their original investment. The economists therefore argued that education should cease to be viewed purely as a consumption good, but rather be viewed as an investment in human capital (Becker 1960, Schultz 1961, Denison 1962).

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[14] The "human capital orthodoxy" is "the belief that economic growth and development requires the continued expansion of education, especially at the higher levels and in the technical and vocational areas" (Maglen 1990: 282).

Human capital theory spawned an explosion of economic research. In the early days, many economists constructed "growth accounting" models to attempt to replicate Denison's claim that 23 per cent of the growth in output in the United States over a 30 year period could be explained by increased average levels of schooling[15]. According to Maglen (1990), the results of the growth accounting studies have been mixed. Few theorists have been able to replicate Denison's original estimates, while others have found flaws in the methodology of growth accounting models (Maglen 1990: 283).

In the mid-1980s, "New Growth theories" argued that human capital could push economies onto faster growth paths, meaning that education was *endogenous* to economic growth (Romer 1986, 1987, 1990, Lucas 1988, Solow 1991). Trying to account for differences in the growth rates between developing countries, the New Growth theories observed that educated parents produce better educated children, and educated workers raise the productivity of the less educated members of their team, as well as being more responsive to new technology. Thus an educated work force could be expected to exhibit increasing marginal productivity and small differences in starting conditions would cause divergences in the economic performance of countries over time. While the "New Growth theories" are in their infancy and are not short on critics, their effect has been to "revive the cause of human capital, by giving it one of the key endogenous roles in the economic growth process" (Maglen 1995: 145).

The largest body of research arising from human capital theory has been studies on rates of return to investment in education and training. Research on rates of return has continued to support the original observation of high rates of return to individuals from educational qualifications. The private return to education consistently outweighs the costs (in terms of fees and foregone income) of the initial investment[16]. In spite of increasing levels of education participation, the rate of return to education has remained high. In 1989, Murphy and Welch summarised the returns in wages for levels of education in the USA over a twenty-five year period, as shown in Table 1.1.

The data in Table 1.1 indicate the increase in earnings for each level of education beyond compulsory schooling. In 1986 the earnings of those completing graduate school were 85 per cent higher than the earnings of high school graduates, and higher than at any previous time. While the returns to college-educated workers fell temporarily in the late 1970s, by the mid-1980s, the rates of return to college degrees had resumed their previously high levels. The temporary decline in the rate of return in the 1970s, is now considered "the predictable consequence of a phenomenal increase in numbers of college graduates that coincided with the entry of the baby boomers into the job market" (Murphy and Welch 1989: 18). The rise in returns to college education during the 1980s implies that the 1970s were only a temporary break in the general trend of increasing returns to education over a long period.

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[15] For literature on the relationship between educational investment and economic growth see Bowman 1964, 1980, Denison 1962, Psacharopoulos 1984, Schultz 1960, 1961.

[16] A selection of the hundreds of published studies on rates of return include Becker 1964; Hanoch 1967; Hansen 1963; Mincer 1974, Psacharopoulos 1973, Murphy and Welch 1989, Vella and Gregory 1992.

Table 1. 1 Rates of return to education (years of schooling) USA, 1963-1986

1	2	3	4	5	6
Years	High school (12 years)	Some college (13-15 years)	College (16 years)	Graduate school	College over High school (Sum Columns 3,4,)
1963-1968	10.7	16.7	31.4	13.6	38.1
1969-1974	9.5	17.1	34.2	14.2	51.3
1975-1980	11.0	12.6	33.8	16.9	46.4
1981-1986	14.2	14.8	37.6	17.7	52.4

Notes: The data indicate the percentage by which the average wage for each level of schooling exceeds that of the previous group, except for column 6. The returns to High school (Column 2) are compared to the returns to individuals with 8-11 years of schooling.

Source: Murphy, K. and Welch, F. (1989). "Wage Premiums for College Graduates: Recent Growth and Possible Explanations". *Educational Researcher* 18(4):17-26.

Australian data collected during the 1980s in Table 1.2 show a similar pattern to the United States. While not directly comparable, the rates of return to schooling in Australia are generally lower than in the USA, however the trend of higher returns to higher levels of education is the same. The Australian data also reveal a steep increase in earnings for those who complete Year 12 compared to students who drop out of school in earlier years. A Year 12 graduate can expect to earn 27 per cent more than someone who left school at the end of Year 10, and 48 per cent more than someone who left school at the end of Year 9.

Table 1. 2 Rates of return to education (years of schooling) Australia, 1988

1	2	3	4	5	6
Year	Year 10 (11 years)	Year 12 (13 years)	Diploma (15 years)	Bachelors Degree (16 years)	Degree over High school (Sum Columns 4,5)
1988	21	27	23	14	37

Notes: The data indicate the percentage by which the average wage for each level of schooling exceeds that of the previous group, except for column 6. The returns to Year 10 (Column 2) are compared to the returns to individuals who left school in Year 9.

Source: Vella, F. and Gregory, R.G. (1996). "Selection bias and human capital investment: Estimating the rates of return to education for young males". *Labour Economics* 3: 197-219: 214.

Although there are differences in the rates of return to levels of education in countries around the world, the broad observations are the same. Regardless of a country's economic development, education delivers substantial returns to individuals in terms of relative earnings. Observing the rates of return to schooling in over sixty countries, Psacharopoulos (1985) found that the returns to education were common to all countries and highest in countries with the lowest per capita income.

With the exception of the 1970s, when college-educated baby boomers flooded the job market, the rapid increase in education participation since the 1960s has had no effect on the returns to educational qualifications. This could not have been foreseen by the early human capital theorists. It was generally assumed that as the number of graduates seeking employment increased, the wage premium for higher degrees would decline. Instead, the demand for educated workers appears to have increased along with the supply of education, resulting in the average returns to education remaining stable over time[17]. For over three decades, the rates of return to education have remained consistently high in all types of countries, in spite of a continuing increase in the supply of educated workers. Hanushek summed up the research findings on rates of return in 1994:

> The average earnings of workers with a high school education remain significantly above those of the less educated, and the earnings of workers with a college education now dwarf those of the high school educated . . . College-educated workers also enjoy greater job opportunities and suffer less unemployment. High technology economies seem to have a voracious appetite for skilled workers, who can adapt to new technologies and manage complicated production processes effectively. So for individuals, at least, the increased relative incomes of more educated people have been sufficient to offset the costs, making additional schooling an attractive investment (Hanushek 1994: 17).

In trying to explain the *causes* of the high rates of return, researchers fall into two main groups. The first group is composed of those who believe that education makes people more productive, which is consistent with the human capital approach. The second group suggests that education could simply be a device to enable employers to identify prospective workers of high innate ability through screening out less able potential employees (Arrow 1973, Spence 1973)[18]. However the human capital approach and "screening" theory are not mutually exclusive. It is probable that acquired skills and innate ability are both responsible for higher rates of return to education. Johnes (1993) cites studies which estimate that the proportion of an individual's earnings differential that can be attributed to innate characteristics realised through screening is no more than 35 per cent for higher education graduates, and up to 40 per cent for secondary school graduates (Psacharopoulos 1975, Williams and Gordon 1981). The remaining proportion is attributed to human capital advantages in the form of increased worker productivity (Johnes 1993). The respective influence of screening versus human capital assumptions may also be influenced by the relative rigidity of graduate labour markets. Maglen (1990) argues that the high incomes of higher education graduates are more likely to be due to their concentration in the public sector and self-employed professions which limit labour supply. At lower levels of education, however, labour market segmentation is less evident.

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[17] The continuing demand for educated workers may be due to the rapid pace of technological change in advanced industrial economies (see Johnes 1993).

[18] There is a difference between the "screening" hypothesis and the "signalling" hypothesis in the sense that education can be used by individuals to *signal* their ability to prospective employers, while it can also be used by uninformed employers to *screen* individuals instead of ascertaining their real ability levels. The two approaches are described in Johnes (1993): 18-20.

The most significant legacy of human capital theory is the evidence of continuing high rates of return to investment in education and training. Disputes about the *causes* of high rates of return have not undermined the basic message that – in spite of a massive increase in participation during the past thirty years – individuals continue to obtain high rates of return from higher levels of education. This high rate of return is generally attributed to higher levels of productivity among educated workers, although for higher education graduates, screening may play a more significant role. With respect to lower levels of education, the evidence tends to suggest that the rate of return to education is linked more strongly to worker productivity, due either to innate ability realised through screening, or to superior skills acquired in the education process (or more likely a combination of these).

Prior to human capital theory, the economic role of education and training was not well defined. In the early 20th Century, economic arguments underpinned several of the Australian Federal government's forays into education, mainly in the areas of scientific and industrial research at the university level[19]. Commonwealth educational expenditure with an economic focus was always justified in terms of scientific advancement, employment creation or the repatriation of returned services personnel. These educational programs were seen as one-off, short-term responses to specific economic problems, rather than long-term investments in human capital[20]. The Australian response to human capital is discussed in Section 2.4 in light of the policy implications of the theory which are examined below.

2.2 The importance of completing secondary school

Human capital theory has demonstrated consistently the economic significance of completing secondary school. The continuing economic importance of completing secondary school is evident both in terms of relative rates of return to education as well as levels of unemployment. Although there has been some variability in the rates of return to education at the university level, this has not been the case in secondary school completion. The finding that the completion of secondary school delivers significant benefits over non-completion has been consistent in the literature on human capital for over thirty years (Miller 1982, Murphy and Welch 1989, Psacharopoulos 1985, Vella and Gregory 1992, 1996).

The wage returns from completing secondary schooling are significantly higher than the returns to non-completers, as shown in Tables 1.1 and 1.2. The average wages of all American workers who have completed high school are 14.5 per cent higher than the average wages of those who have not (Murphy and Welch 1989). In Australia, for each additional year of secondary school beyond Year 9, workers can expect average wage increases in the order of 21, 12 and 15 per cent respectively (Vella and Gregory 1996). Completing secondary school in Australia delivers greater increases in relative wages (compared to non-completers) than the completion of any subsequent years of

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[19] The policy rationale for the establishment of CSIR in the 1920s was primarily economic and the issue attracted heated parliamentary debate (Tannock 1969).

[20] For example, the Federal government provided educational assistance to returned services personnel after both World Wars and introduced a technical training program for young unemployed during the economic depression of the 1930s.

education. In 1988, Australian university graduates with diplomas and degrees obtained wage margins of between 23 and 14 per cent over Year 12 graduates, whereas Year 12 graduates' wages were 27 per cent higher than Year 10 graduates' wages, and 48 per cent higher than the wages of workers who left school in Year 9. These findings led Vella and Gregory to observe, "for all educational groups an important step in the earnings function occurs at the completion of 12th grade" (1992: 145)

Australian workers who have completed secondary school are also less likely to suffer from unemployment than those who have not completed school. When secondary school completers become unemployed, it tends to be for shorter periods than for those who have not completed school (Lamb et al. 1995). Fifty-five per cent of the long-term unemployed in Australia – those out of work for more than two years – have not completed secondary school (ABS Cat. No. 6235.0)

It is not perfectly understood why the completion of an Australian secondary education delivers such good returns in terms of wages and steady employment. The explanations tend to range within the well-worn parameters of the "screening versus productivity" debate (McKenzie and Long 1995). In addition, Vella and Gregory (1992) suggest it could be due to an increase in self-confidence among successful Year 12 graduates, or the fact that more Year 12 completers are from higher socio-economic backgrounds than non-completers, or simply a "stigma effect" associated with not completing secondary school. McKenzie and Long (1995) found that Year 12 graduates are more likely to be involved in work-based education and training than workers who have not completed Year 12. If one accepts the proposition that education makes some contribution to worker productivity, the rates of return to secondary schooling can be assumed to reflect – in some measure – the quality of senior secondary education. The additional years of senior schooling could well make Year 12 graduates more productive, more flexible and more capable of undertaking further training – all of which increase their labour market value. Regardless of whether Year 12 adds productivity to students or is simply a device to screen students of innate ability for employers, the rate of return to Year 12 completion confirms its value as an educational investment.

The economic significance of schooling was recognised by State Ministers of Education when they sought Commonwealth financial assistance in 1961 (Spaull 1987: 115). The Australian Federal government responded to this request by providing secondary scholarships and funding for school science blocks in 1964. However, as discussed in Section 1.3, Commonwealth involvement did not have a noticeable impact on levels of participation in senior secondary schooling. Before discussing the Australian policy response to human capital theory in Section 2.4, I will examine the implications of human capital theory for the role of government in educational investment.

2.3 The role of government

Human capital theory had implications for both government policy and for individuals. At the policy level, human capital demonstrated that a nation seeking to increase its economic growth should not limit its capital investments to physical facilities such as plant and equipment. It was argued that investments to improve labour productivity, such as expenditure on health and education could also generate income, both for

nations and for the individuals who made the investment. While human capital theory provided a rationale for *increased investment* in education and training, it did not specify the extent to which governments – as opposed to individuals – should make the investment.

The early human capital theorists were quick to point out the policy implications of their research, but they did not presume to indicate how the policy changes should be brought about. In 1962, Edward Denison concluded his book with "a menu of choices available to increase the growth rate"[21]. Denison's list included policy options such as: reducing the hours lost from work through industrial disputes, sickness and accidents; rehabilitating criminals; reducing unemployment; increasing the rate of private investment; doubling net immigration levels; and increasing the amount of time students stay at school by one and a half years (or making an equivalent improvement in the quality of education). Each policy choice on Denison's menu was accompanied by an estimate of the contribution it would make to the rate of economic growth (Denison 1962: 276).

While Denison's menu illustrated the range of policy options inspired by human capital theory, he did not argue that governments should finance all or any of the changes he proposed. Human capital theorists have never argued that investment to improve the stock of human capital should be provided entirely by government. On the contrary, given the high rates of return to individuals from investing in education, the incentives to become educated already exist. As Murphy and Welch concluded,

> The high returns to education that we observe make it more important that the government not inhibit the ability of individuals to get a college education, but the returns indicate also that no drastic change in policy is required to encourage individuals to obtain a college degree . . . The high college wage premium is a signal that it pays to obtain a college degree. Perhaps the best policy is to spread the word of recent growth in college premia and then to sit back and admire the market at work (Murphy and Welch 1989: 26)

Human capital theory provided a persuasive argument for individuals to finance their own education and implied that the only role for governments was to make people more aware of the benefits of education investment. However, there are three significant exceptions to this rule, where government involvement in financing education can be justified.

The first reason for government intervention is to overcome imperfections in capital markets. Human capital theorists pointed out that in spite of the high rates of return to education, investment in human beings cannot be financed on the same terms or with the same ease as investment in physical capital. There is no way that the lender can obtain any security for a human capital loan – short of some form of slavery. Government intervention would therefore be desirable to make capital available for people to invest in education. Milton Friedman (1962) proposed making loans available for students on the condition that the individuals repaid the loans as a specified

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[21] see concluding chapter in Denison, E.F (1962) The sources of economic growth in the United States and the Alternatives before us. Supplementary Paper No. 13, Committee for Economic Development, USA.

percentage of their earnings after graduation. He suggested that the project could be combined with the payment of income tax to minimise administrative expenses. Friedman emphasised that the role of such a scheme was not to finance education, but to rectify imperfections in the capital markets.

> The desideratum is not to redistribute income but to make capital available at comparable terms for human and physical investment. Individuals should bear the costs of investment in themselves and receive the rewards. They should not be prevented by market imperfections from making the investments when they are willing to bear the costs (Friedman, 1962: 105)

In theory, an income-contingent loans scheme could be introduced for all education beyond the compulsory years of schooling[22]. However the desirability of implementing such a scheme at the various levels of education has to be considered in the context of discount rates and externalities, which are discussed below.

The second reason why governments might get involved in financing education is to influence the education decisions taken by individuals with discount rates that are higher than socially optimal. If particular groups, notably poorer students, have higher discount rates than others, they will over-emphasise today's costs of education over tomorrow's higher income flows in their investment decisions. This is illustrated by the continuing gap in school completion rates between students from high and low socio-economic backgrounds, shown in Figure 4.3. Government intervention would therefore be justified to redress problems in the responses to incentives between rich students and poor students in terms of financing education investments[23]. The most popular means of addressing this issue is to make some form of direct financial assistance to students from low-income families.

The continuing gap in school completion rates between rich and poor students in Australia suggests that financial incentives alone are not the sole determinants of students' educational choices. Even when students are equipped with accurate information about rates of return to particular occupations, they do not make their investment decisions entirely on the basis of financial returns. (Bosworth and Ford 1985). While Australian students have enjoyed free university places and means-tested financial assistance since 1974[24] the Year 12 retention rate among low-income students remains below that of high-income students as shown in Figure 4.3. While higher discount rates may deter poor students from continuing their education, low participation rates among certain social groups can also be attributed to differences in

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[22]The Australian Higher Education Contribution Scheme (HECS) for funding university places closely follows Milton Friedman's proposal for an income-contingent loans scheme.

[23] The extent to which governments are motivated to equalise the "discount rates" can be outweighed by other policy concerns. When the Australian government introduced an income-contingent loans scheme for higher education in 1990, the policy consideration of equalising discount rates was outweighed by the government's interest in attracting revenue from the payment of fees up-front. The government therefore offered a 15% discount to anyone paying fees up-front, thus providing additional benefits to wealthy students.

[24] Various forms of financial assistance have been provided to students in Australia, but until 1974 these grants were merit-based scholarships to students of high ability, regardless of financial means. In 1974, the Australian Federal government introduced a financial assistance scheme that was means-tested according to the family income of the student.

standards of education provision between secondary schools, and barriers to further education imposed by Year 12 assessment systems and universities' admission criteria (Teese 1989). These observations strengthen the argument for governments to target assistance to social groups who experience continual low participation rates in education. As financial considerations are not solely responsible for the low participation rates in education of specific social groups, the scope of government intervention may need to go beyond the provision of financial assistance schemes, if the policy objective of increasing participation rates is to be achieved.

The third reason that might justify government investment in education is the existence of externalities or "neighbourhood effects". This means that the total benefit of education rarely accrues to the individual alone, because there are benefits to society as a whole from higher levels of education. Neighbourhood effects of education and training include breakthroughs in scientific research, increased economic and cultural capital, improved social cohesion, better health, a reduction in crime and lower levels of unemployment (Haveman and Wolfe 1984). Researchers estimating the value of the neighbourhood effects conclude that the "annual value of incremental schooling reported in the standard human capital estimates may capture only about one-half of the total value of an additional year of schooling" (Haveman and Wolfe 1984: 401) [25]. The neighbourhood effects of education are most significant at the lowest levels of attainment and gradually diminish in importance as a student moves through higher education (Haveman and Wolfe 1984, Psacharopoulos 1985). However, in the case of university research, the externalities – while difficult to quantify – are considered sufficient to justify government investment (Jaffe 1989, Mansfield 1991, Gambardella 1995) [26].

The existence of neighbourhood effects provides a justification for government financing of education because these factors are not taken into account by individuals when making personal investment decisions. The risk of under-investment in education if the decision is left to individuals alone is illustrated by the fact that one in four individuals drop out of secondary school in Australia in spite of the significant neighbourhood effects of secondary school completion. While society would be better off if there were mass completion of Year 12, the individuals who make the decision to drop out cannot be expected to take this into account. Governments should therefore provide additional incentives for individuals to complete secondary school if they want to obtain the positive neighbourhood effects.

While the neighbourhood effects of mass participation in secondary schooling justify substantial government investment in schooling, the argument is weaker in regard to mass participation in higher levels of education. This has led some human capital

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[25] While Blaug (1987) is pessimistic about the prospects of quantifying externalities, several studies have tried to estimate the value of the social and as well as the private returns to education. These studies are few in number because of the complexity of the data set needed to calculate social benefits, compared to the relative simplicity of calculating private rates of return based on individual earnings (see Johnes 1993: 27-38).

[26] The Australian government began supporting medical research under its quarantine powers within the first decade of the 20th Century. The aim to broaden Australia's economic base after the First World War led to the establishment of the Council for Scientific and Industrial Research in 1926, which ultimately became the Commonwealth Scientific and Industrial Research Organisation in 1949.

theorists to question the level of government assistance to higher education (see Blaug 1983). Psacharopoulos (1985) argues that the money saved by reducing subsidies to universities should be reinvested in schooling, particularly at the primary level. If government subsidies to universities were to be reduced, enrolments in higher education would not be expected to decline. Given the continuing high rate of return to individuals from higher education investments, there would still be a strong incentive for individuals to invest in higher education even if government assistance were reduced (Blaug 1983, Murphy and Welch 1989).

In the unlikely event that the returns to individuals from higher degrees fell so much that demand for university places declined, government would need to intervene to guarantee the neighbourhood effects. In such a scenario, the value of private returns to higher degrees would be *less* than the value of the social returns. Increased government intervention in higher levels of education would therefore be necessary to compensate for the low returns to individuals and to secure the benefits for society. To date, human capital theory has demonstrated that the rates of return to degrees have never been low enough to give governments any cause for concern about under-investment in higher education. Nevertheless, since the Murray (1957) report, Australian governments have encouraged an expansion in higher education through increased levels of public funding.

In summary, human capital theory implies that there are three main reasons for governments to be involved in the financing of education, namely: to address inadequacies in the capital markets; to improve the incentives for poor students; and to secure neighbourhood effects for society. Of these reasons, the existence of externalities or neighbourhood effects provides the strongest policy rationale for government involvement in funding education, particularly at the school level. While human capital theory supports the notion of increased investment in education, it does not imply that all of the costs of the investment should be borne by government. In making allocative decisions within the education sector, human capital theory implies that levels of government subsidisation should decline with levels of education. In other words, governments should place a high priority on universal primary schooling, should seek to maximise participation in secondary schooling, and should provide lower levels of support for students at the university level. Governments may also be justified in providing high levels of support for postgraduate research training.

2.4 Human capital theory in Australia

Human capital theory was first raised publicly in the context of Australian education policy in the inaugural Buntine Oration in 1962. Professor Peter Karmel, an economist from the University of Adelaide, advocated increased government investment in education at all levels. The basis for his argument was that the externalities of education were large in relation to the personal benefits. He surmised: "Whereas people will buy education in relation to the private benefit that they anticipate will accrue, the benefit accruing to society may be very much greater than that accruing to the individual" (Karmel 1962: 7). Karmel acknowledged that studies had found the personal rate of return on higher levels of education to be high, but he said that "a number of objections can be raised against the procedures used and the interpretation of the results" (Karmel 1962: 6). Dismissing the rates of return findings, he asserted that the costs of increased

government investment could be compensated for by economic growth. "Education has directly beneficial effects on production and the rate of economic growth so that there is a sense in which it pays for itself by future production"(Karmel 1962: 19).

Human capital theory thus entered Australia's education policy debate as a rationale for increasing government investment in all levels of education. Karmel's speech reflected the uncritical enthusiasm for human capital theory common in economic circles following Theodore Schultz's presidential address to the American Economic Association in 1961 (Schultz 1961). Subsequent studies in human capital confirmed the rates of return findings and revised down the value of externalities as a rationale for government investment in higher education. When Karmel spoke in 1962, the level of understanding of human capital concepts was quite imprecise. It was generally believed that the high rate of return to higher degrees was due to under-investment in college education, and that if the number of college graduates were to increase, the wage premiums would fall (Becker 1960). The measurement of the value of externalities from education was also undeveloped. As Blaug reflected 25 years later, "in the 1960s, the standard view was that the externalities were large in relation to the private benefits of higher education but the new consensus, at least for advanced countries, is that they may well be negligibly small" (Blaug 1983: 127).

In 1962, the Australian Federal government was a major funding source for universities and was yet to became a minor partner in funding for schools. Karmel's interpretation of human capital theory was therefore taken up to support increased Commonwealth expenditure on higher education. In 1964, the Martin Committee of Inquiry into the future of Tertiary education in Australia – of which Karmel was a member – stated "it is both realistic and useful to regard education as a form of national investment in human capital" (Martin 1964: par. 1.17). Quoting Denison's estimates of rates of return to higher education, the Committee acknowledged that "investment in additional education yields a monetary return measured by the additional income earned in later life" (par 1.20). However, the Committee said that the rates of return findings needed to be treated "with caution", on the grounds that an increase in higher education graduation rates could result in a reduction in the wage premium for graduates (par 1.20). The Committee then repeated the assertion that the social benefits of education were more substantial than the private returns. "The material benefits of education, which accrue to the individual concerned, are only a fraction of the total benefits accruing to society"(par. 1.21)[27].

While the Martin Committee also pointed out that there was a significant financial handicap to students completing secondary school, it had not been established to advise the Federal government on schooling, nor on the allocation of resources between levels of education. During the 1960s, the Federal government became a minor funding partner in school education while increasing its funding role in higher education. In 1967, the Federal government spent over $120 million on higher education and less than $20 million on schools (*Commonwealth Budget Estimates 1967-68*: 14-24). State and

[27] In response to the Martin Committee's report, the Federal government increased its funding for university places by 30 per cent (ie. the number of Commonwealth scholarships increased by that amount).

Territory governments, in comparison, spent over $500 million a year on schooling in 1967 (Karmel 1973: Table 4.10).

When State Education Ministers requested direct assistance from the Federal government in 1963, they cited economic policy goals as a reason for Federal involvement (Spaull 1987: 117). However, successive Federal governments were careful to avoid economic issues in their policy statements, relying instead on the more tractable concept of "needs-based" funding for schools. In 1973, the Committee of Inquiry which recommended the expansion of Commonwealth schools funding made no mention of human capital theory nor the economic significance of schools in its final report (Karmel 1973). Such issues were not mentioned in the Committee's brief and were most likely considered outside its terms of reference. While expenditure on schooling increased significantly following the Karmel report, Commonwealth schools programs were not directed to meeting economic policy objectives. The most significant Commonwealth initiative in terms of human capital was the introduction, in 1973, of means-tested student assistance schemes to replace Commonwealth scholarships for students at the university and the senior secondary school level.

In 1985, economic policy appeared in the Federal government's policy agenda for schooling when the Commonwealth announced its goal to increase Year 12 retention rates[28]. Because the Federal Labor government was responsible for the payment of unemployment benefits, the rising cost of supporting unemployed young people brought the issue of Year 12 retention rates onto the Federal policy agenda. Between 1978 and 1983, the unemployment rate for 15-19 year olds had increased from 17 per cent to 26 per cent and was double the rate for the adult population (ABS Cat. No. 6203.0). A report on Commonwealth labour market programs re-stated the classic human capital proposition that " increased education and training effort not only improves the long-term employment prospects of the individual, but also assists the economy by developing the nation's skill base and its ability to adjust to changes in economic conditions and technology" (Kirby 1985: 109).

The Federal government supported its retention rate goal with funding initiatives which were quite separate from its major recurrent and capital funding programs for schools. It introduced training schemes for the young unemployed and developed a common allowance structure between unemployment benefits and its student financial assistance scheme. It also initiated programs of targeted assistance to schools such as the Participation and Equity Program, and a one-off program for young people called the "Priority One" Youth Strategy (*Commonwealth Budget Papers 1986-87*). However it made no attempt to re-allocate resources within the education portfolio or to review the "needs-based" policy for general recurrent funding, which accounted for 70 per cent of all Commonwealth outlays on schools. Whereas economic goals featured large in the rhetoric of Federal government schools policy after 1985, the pattern of Commonwealth expenditure on schooling remained unchanged.

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[28] Senator Susan Ryan, Federal Minister for Education announced the goal in 1985, and it was supported by the Commonwealth Schools Commission in its 1987 report, *In the National Interest: Secondary Education and Youth Policy in Australia.*

It is not possible to distinguish between the impact of the Commonwealth's policy to increase Year 12 retention rates and the outcome of State government activity. Most State education authorities reformed their curriculum and assessment practices during the 1980s, widening the choices of study available to senior secondary students. These initiatives appeared to be successful as the Year 12 retention rate rose rapidly in the late 1980s. The Federal government had aimed to achieve 65 per cent Year 12 retention by the early 1990s and the Year 12 retention rate reached 77.1 per cent by 1992[29]. However, since 1992, the rate of senior secondary participation has fallen, in spite of a new national policy goal to increase Year 12 retention rates to 80 per cent by 2001[30]. Federal and State Education Ministers have offered no explanation for why the Year 12 retention rate has declined and although the Commonwealth remains publicly committed to economic policies for schooling, it has few policy instruments with which to pursue these goals.

In spite of its significance to education policy, human capital theory has been historically marginal to the formulation of schools funding policies in Australia. While the Federal government has couched its schools policy in economic terms since the mid-1980s, its major programs of schools expenditure are not based on achieving economic policy goals. Notwithstanding its commitment to increasing Year 12 retention rates in the 1980s and the economic policy framework of the Finn (1991) and Mayer (1992) reports, the Federal government has not been driven by economic imperatives to increase its involvement in schooling. The separation of powers between States and the Commonwealth may have been a structural barrier to the consideration of allocative issues within the education sector. The Federal government's established role as a major funding provider for universities meant that human capital theory was used successfully to argue for increased Commonwealth investment in higher education. The Federal government played no role in funding schools until the 1960s, and economic considerations were not a rationale for Federal intervention in schooling. While one-third of Commonwealth education outlays are now directed to schooling, the major Federal schools programs are only indirectly associated with the pursuit of economic policy goals.

Conclusion

Governments began to invest in school education in the belief that a literate and numerate population would improve the quality and stability of civil society. As this goal could be achieved by the end of primary school, there was no policy imperative for State governments to create a comprehensive system of secondary schooling beyond the compulsory years. As a result, the completion of secondary school remained a largely private investment in Australia until well after the end of the Second World War. In the 1960s, State education authorities were ill-equipped to meet the rising demand for senior secondary schooling and the completion of secondary school still required a substantial private investment from most students. The Federal government was slow to assist the States in meeting the demand for senior secondary education, and its

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[29] Although State and Territory Education Ministers said that "the target of 65 per cent Year 12 retention by 1992 has . . . acted as a successful focus for policy development (Finn 1991: 36), it is difficult to pinpoint exactly why Year 12 retention rates increased so significantly during the decade.

[30] This policy goal was set by the Finn Committee in 1991 and is discussed in the following chapter.

contribution in the form of Commonwealth scholarships was not very effective in improving participation at the senior secondary school level.

Although human capital theory highlighted the significant private returns to individuals from education, it also implied that governments could be involved in funding education – particularly at the school level – because of its positive neighbourhood effects. However, in the Federal sphere, where economic arguments are more relevant to government policy, human capital theory was used effectively to argue for an expansion of higher education funding long before it was deemed relevant to schools. Whereas Federal funding for schools has increased steadily since the 1960s, the purpose of this expenditure has not been to achieve economic policy goals. When the Federal government defined a human capital objective for senior secondary participation in the 1980s, its programs to achieve this goal were short-term and supplementary to its main schools funding programs. Although economic goals have become a centrepiece of Commonwealth schools policy since the 1980s, the pattern of Federal expenditure on schooling has remained unchanged since 1974. The implications of human capital theory for government investment in school education, particularly at the senior secondary level, were never seriously addressed by State or Federal governments in Australia. The lack of interest by State governments may be due to the fact that economic policy is a Federal government concern; the reasons why Commonwealth schools policy developed in this way will be explored in the next chapter.

Chapter Two

Survey of Federal intervention in schools

Introduction

The purpose of this chapter is to explain how Commonwealth schools funding has evolved since Federation and to identify the factors that have shaped Federal education policy. Under the Australian Constitution, the Federal government is not explicitly responsible for education. Commonwealth intervention in education developed as it carried out its responsibilities in the areas of Health, Defence and Post-war reconstruction. Within the first ten years of Federation, the Commonwealth's responsibility for quarantine led to the payment of grants to universities for medical research. During the second decade of Federation, the Commonwealth's responsibility for defence led to Federal government involvement in schooling. Because the pre-school sector did not exist at the time of framing the Constitution, there was no impediment to the Federal government's involvement in directly funding pre-schools and child care centres[1].

The division of powers between the Federal and State governments enabled the Federal government to avoid direct involvement in schooling until the 1960s, when political conditions prompted a reversal of Commonwealth policy. During the 1960s, a series of election policy commitments resulted in the incremental growth of Commonwealth involvement leading to the introduction of directed current assistance to private schools in 1969. By 1975, the Federal government had established a substantial portfolio of Commonwealth programs for schools.

1 Early Commonwealth initiatives

The Commonwealth Department of Education was established in 1967, although the Commonwealth had been involved in schooling since 1911, with programs funded through other Federal Departments. During the first four decades of Federation, the Commonwealth government instituted a number of programs in the field of education and health but its school programs were "characterised by their lack of coordination, their emergency-based conception, and their temporary design" (Tannock 1969: ii). As the Federal government's early forays into school education were directly related to its policy responsibilities, the first Federal initiatives in schooling were financed by the Department of Defence. These programs were administered by State Education Departments and grew to be a substantial funding commitment by the 1940s, but had little subsequent impact on policy development for schools at the Federal level.

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[1] Commonwealth responsibility for quarantine gave it responsibilities for public health, and its interest in disease control led to concerns about child health and nutrition, so in 1938 the Commonwealth established demonstration kindergartens in each capital city under the policy of promoting public health (Tannock 1969: 26-29) which later led to Commonwealth funding of child care.

1.1 Physical Training Scheme

The first Federal program for schools was a Physical Training Scheme to promote higher standards of physical fitness among schoolboys to prepare them for military service. Introduced in 1911 and managed by the Department of Defence, the Physical Training Scheme defined parameters for Federal policy interventions in schools.

The original proposal developed by the Federal Defence authorities proposed to give the Federal government responsibility for training instructors, choosing the curriculum and supervising a program of physical education in Australian schools (Tannock 1969: 76). The States rejected this proposal, arguing that it was their Constitutional responsibility to design and implement a general physical training program, and that there was no need for uniform national standards of training imposed on schools. After protracted negotiations, the Commonwealth's agreed role was to provide free physical training courses for teachers by "Special Instructors" who were permitted to visit schools – by invitation – to give lectures and demonstrations.

In 1922, the Federal government wanted to abandon the scheme but the State governments petitioned to have it maintained at the Commonwealth's expense[2]. The scheme was eventually abolished in 1931, but was re-introduced on a larger scale in 1939 under the sponsorship of the Federal Department of Health (Tannock 1969: 80-89)[3]. Physical fitness remains a priority of State and Territory education systems, and the ninth goal of the Common and Agreed National Goals for Schooling is "to provide for the physical development and personal health and fitness of students and for the creative use of leisure time" (Australian Education Council 1989). In spite of the fact that it has been a joint policy priority of the Federal and State governments for over eighty years, the effectiveness of government expenditure on physical education has never been systematically assessed. The Physical Training Scheme was distinguished by the absence of any mechanism through which the Federal government could ensure that its policy objectives were being achieved and the State governments' denial of any means by which Federal authorities could monitor program outcomes

1.2 Soldiers' Children Education Scheme

The Soldiers' Children Education Scheme was established to assist children whose fathers had been killed or permanently incapacitated by the First World War. Some 12,000 children were eligible in 1921, and the number had grown by an additional 5,000 students by 1937. The scheme offered educational support from the age of thirteen years, to enable the clients to complete the level of education necessary to fulfil their potential. It was administered by a Soldiers' Children Education Board in each State, the membership of which was dominated by representatives of State and non-government schools[4].

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[2] The States rejected the Commonwealth's suggestion that they pay for it themselves.

[3] The new scheme established fitness councils in each of the States and provided funding to tertiary education institutions for teacher training courses.

[4] Each Board comprised ten to fifteen members: three nominated by the Director-General of the Education Department representing primary, secondary and technical education; a nominee of the State University; two representatives of private boys' secondary schools; one representative of private girls'

Two forms of financial assistance were provided to the children: financial assistance to cover school and university fees; and a generous maintenance allowance, including assistance for travel, books, instruments and clothing. In addition, members of the governing Boards took on a pastoral role, taking an interest in the child's social and physical development as well as their educational progress. Each child received individual attention from the Board, either through an individual Board member or through an expert sub-committee. The Boards took an interest in the educational progress of their clients at the earliest opportunity.

> . . . it is not until the child reaches thirteen years of age that the major benefits commence, but very practical assistance is extended some years before that age. Towards the end of primary education, direct supervision over the child's education is undertaken by the Education Board – in determining the important question as to the form which supplementary education should take . . . (Repatriation Commission 1937: 19)

Most of the clients of the Soldiers' Children Education Scheme were retained in education for far longer than expected, completing courses of education and training at a much higher rate than the rest of the population. Of 19,461 clients approved for assistance between the wars, 46 per cent completed secondary school and most of the remaining students completed vocational training or agricultural studies. Less than 15 per cent of the Scheme's clients dropped out of education and training at the secondary or vocational level. During the inter-war years, when participation in post-primary education and training fell, the beneficiaries of the Soldiers' Children Education Scheme were one of the few groups who received government support to continue their secondary schooling (Repatriation Commission 1937: 23)[5].

The success of the Scheme was attributed both to the generous level of financial assistance granted to clients and to the pastoral role undertaken by the Boards of management.

> Experience has proved this to be the wisest and most effective element of the whole plan . . . With Boards of such constitution, with their practical system of administration, and with the sustained zeal which they have undoubtedly displayed, the success of the scheme to date is at once explained (Repatriation Commission 1937: 18).

The initial budget for the Soldiers' Children Education Scheme was 1.25 million pounds over a twenty year period, but this estimate proved conservative as the number of eligible students increased and as the clients remained in education and training for much longer than originally envisaged[6].

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secondary schools; a representative of the Returned Servicemen's League; and representatives of private Foundations that had made substantial donations (Repatriation Commission 1937: 18).

[5] During the inter-war years, access to the few technical training colleges and secondary schools was restricted to those who could pay fees, and many university courses were under subscribed – a situation exacerbated by the economic depression in the 1930s.

[6] The number of eligible children also increased over the twenty years of the scheme's operation, as children born after the war were included and the eligibility criteria were extended to include more veterans (Repatriation Commission 1937: 18).

The Soldiers' Children Education Scheme differed fundamentally from any other programs of Commonwealth assistance for schools or students[7]. Eligibility for assistance was not conferred on the basis of a means-test, nor on the basis of academic merit. Second, the benefits offered by the scheme were uniquely comprehensive – it assisted children from the age of 13 years and it provided sufficient financial support to cover living expenses as well as school fees. Third, the administration of the scheme by local Boards of education professionals provided a means of offering counselling and support to clients – the earliest form of case-management in any Commonwealth-funded education program.

The most remarkable outcome of the Soldiers' Children Education Scheme was its success in retaining clients in education longer than the norm, even though this was not one of the Federal government's stated policy objectives. It demonstrated that a particular type of government intervention can be effective in improving students' educational outcomes. It illustrated a level of resources and a policy instrument that was effective in raising the completion rates of students in secondary schools.

The scheme continued beyond the Second World War and was phased out in the 1970s. By then, the Commonwealth Department of Education was established and vast amounts of Federal assistance were flowing to schools. However, the Soldiers' Children Education Scheme was never part of the "corporate memory" of the Federal Department of Education which had begun with the establishment of the Office of Education in the Prime Minister's Department during the 1940s. Administered by State Education authorities on behalf of the Defence Department, the scheme was part of a package of repatriation measures that was not considered relevant to Federal education policy. In 1984, when the Federal Minister for Education adopted the policy of raising Year 12 retention rates, the success of the Soldiers' Children Education Scheme in the 1930s had been long forgotten. As the program had been run by State governments on behalf of a different Federal agency, lessons from the Soldiers' Children Education Scheme have never informed Commonwealth education policy.

2 The development of a Commonwealth education portfolio

Over the two decades following the end of the Second World War, Commonwealth investment in education increased significantly, but none of it went to schools. In the early 1960s, a range of political pressures successfully delivered the first programs of direct Commonwealth assistance to schooling.

[7] The Commonwealth's main scheme of student assistance today is AUSTUDY which pays benefits to students over 16 year of age, confers eligibility on the basis of a means-test and offers no counselling or support services.

2.1 Post-war reconstruction

Under the Constitution, Commonwealth responsibility for quarantine gave it a policy justification for supporting almost all types of medical and scientific research. This led to the development of a close relationship between the Federal government and the universities from the early years following Federation. In 1907, the Federal government funded a medical research project with the assistance of Australian universities, and established the Institute of Tropical Medicine in Townsville. This was followed by substantial programs of investment in medical and scientific research during the 1920s and 1930s.

In 1942, the Federal Labor government established a Universities Commission to administer a scheme of Commonwealth Financial Assistance to university students to ensure that there would be a ready reserve of skilled manpower in universities to assist in the war effort[8]. The Universities Commission assumed an advocacy role on behalf of the Australian Vice-Chancellors' Committee and lobbied for increased Commonwealth assistance to tertiary education (Tannock 1969). Chaired by Professor R.C. Mills, a close friend of Ben Chifley, the Universities Commission was well placed to influence the direction of Commonwealth policies for education in the post-war era. As a result, under the post-war re-construction program, the universities received a substantial injection of capital funds, the provision of 10,000 Commonwealth scholarships[9] and for the first time, subsidies for their operational costs (Tannock 1969: 412). By 1949, the universities' total income had trebled in a decade, and fifty-four per cent of their operating income came from government[10].

School education was not absent from Commonwealth policy deliberations after the war, but was overshadowed by other priorities. The Federal Labor government was aware that the majority of Australian children lacked the financial means to complete secondary school.

> It soon became apparent to those responsible for the implementation for the Financial Assistance Scheme during the war that despite its aim to make university education available to the whole community on the basis of 'merit', the fact that selection for assistance had to be based on results in matriculation examinations immediately tended to defeat this objective. Only a relatively restricted number of students were completing their high school education and the majority of these came from the more affluent section of Australian society. (Tannock 1969: 339)

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[8] The scheme included means-tested living allowance to holders of Commonwealth Scholarships in universities and technical colleges, accompanied by a bond to serve the government, if required, up to three years after their graduation (Tannock 1969: 292-309).

[9] This exceeded the total number of pre-war university student enrolments (7,800 students) in 1939.

[10] In 1939, only forty per cent of university funds were provided by government, and the remainder came from private endowment (22 per cent), investment income (2.5 per cent) and student fees (34 per cent). Commonwealth funding for universities increased from $71,000 per year in 1939 to $1.2 million per year in 1949 in constant prices (Mathews 1972: 86).

Concerned about the inequity of providing assistance to university students but not to secondary students, the Federal government asked its only source of education policy advice – its Universities Commission – " . . . for a report regarding the possibility of providing assistance to prevent leakage of students at the secondary school stage" (Tannock 1969: 339). The Commission's report, produced in December 1944, suggested providing financial assistance to children staying on at school. However it also pointed out that if the government proposed to increase school completion rates, the universities would need more funding to cope with the additional students (Tannock 1969: 340)[11]. The Federal government took no action on the Commission's recommendations because according to the Minister for Post-War Reconstruction, John Dedman, Chifley did not think "the time was right"(Birch 1975: 50). Tannock surmises that Chifley took no action in providing secondary school assistance because the Commonwealth was already committed to large increases in expenditure on university education; the government was unsure of its Constitutional position; and Chifley feared becoming involved in a debate about state aid for church schools (Tannock 1969: 341).

The uncertainty over Commonwealth education funding arose from a High Court challenge to the Commonwealth's power to implement its *Pharmaceutical Benefits Act 1944* under Section 81 of the Constitution – the power under which the Commonwealth appropriated Consolidated Revenue for most purposes. A successful challenge to the scope of this power would have limited the Commonwealth's capacity to provide grants for education (Birch 1975: 78-79). Nevertheless, the High Court challenge did not stop the Federal government from passing its *Education Act* to perpetuate the Scholarship Scheme for university students in October 1945 – two months before the High Court handed down its decision in the Pharmaceutical Benefits Case[12]. Although the High Court decided for the Commonwealth in the Pharmaceutical Benefits Case, its judgment led the Commonwealth to seek further protection of its powers by Constitutional amendment. In a 1946 referendum, the Commonwealth successfully amended Section 51 of the Constitution to extend its powers to provide a range of benefits in the social security sphere, including a "benefits to students" provision. Dedman claimed that the "benefits to students" power would have been used to introduce secondary school scholarships and a Schools Commission if Labor had been returned to office in the 1949 election (Birch 1975: 50).

In 1943, the Australian Teachers' Federation began lobbying the Federal Labor Party to provide Federal finance for schools (Birch 1975: 46-48). In 1948, Chifley again requested advice on how to help secondary school students, asking his new source of policy advice, the Commonwealth Office of Education for a "Study of Wastage of Ability at the Secondary School Level" (Tannock 1969: 341). After exhaustive research, drawing on the records of armed services personnel, the Office concluded:

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[11] Until 1956, Australian universities had open enrolment policies, whereby any student who matriculated was admitted to the course of their choice. "This apparently benign selection regime was possible only because almost every young person had already been culled in primary and lower secondary education. Even as late as 1948, only 2 per cent of 17 year-olds entered university" (Marginson 1997: 131).

[12] Birch (1975: 40-41) points out that the Commonwealth government was aware of the dubious Constitutional validity of a universities scholarship scheme after the cessation of hostilities, but it went ahead anyway.

> . . . two-thirds of the youngsters with the ability corresponding to the top half of university graduates were not getting an education commensurate with their ability. And of those, the reasons given for their not going on with their education, for two-thirds of them it was economic; they just couldn't afford to go on.
>
> T.L Robertson, Assistant Director of the Office of Education, interviewed by Tannock (1969) p. 342.

The Office of Education recommended the introduction of a Commonwealth bursary scheme to cover the last two years of secondary education. The report reached Chifley's desk one month before the 1949 Federal election, which saw the defeat of the Chifley government. When the proposal for a secondary scholarships scheme was presented to the new Menzies government in 1950 by Professor R.C. Mills, by then the Director of the Office of Education, it was not taken up.

2.2 Federal government resistance to funding schools

Throughout the 1950s, Prime Minister Menzies steadfastly refused to provide any system of support for secondary students, on the grounds that school education was a State government responsibility. Menzies was well-known for his Federalist perspective on government and he often stated that the Commonwealth did not have a legitimate role in school education (Menzies 1961, Smart 1978: 2). He may have also have been deterred by the cost of Commonwealth participation in schooling (Tannock 1969: 345). However, in the 1950s, Menzies provided substantial indirect support to the private schools sector. In 1952 Menzies introduced a tax concession of up to fifty pounds per year for private school fees (Smart 1978: 28). In 1954, the tax laws were amended to allow gifts to schools for building purposes as a tax deductible item[13]. In 1956 Menzies provided interest subsidies for capital expenditure by private schools to be built in Canberra (Tannock 1969: 457-460). The assistance to schools in Canberra largely aided the Catholic sector, as a disproportionate number of Commonwealth public servants were Roman Catholic (Menzies 1970: 95). The combined effect of these measures in the ACT was significant.

> By 1968, the still-in-power Liberal-Country Party Commonwealth government was underwriting virtually all of the capital costs and much of the recurrent expenditure of denominational schools in the Federal Capital Territory with the result that private schools flourished in this area as nowhere else in Australia (Tannock 1969: 461).

Given the Liberal Party's conservative and non-Catholic affiliations, Menzies felt no compulsion to provide Commonwealth assistance to government schools or direct aid to Catholic schools in the 1950s. Menzies' tax concession policies for private schools emerged from his own experience and personal connections with his former private school (Menzies 1970: 96). Some credit for these decisions was also claimed by The Headmasters' Conference, which represented about sixty Independent boys' schools and

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[13] The cost of the taxation concessions is impossible to determine. The tax deductibility of school fees was phased out in the 1970s, and interest subsidies were replaced with direct grants. Most State governments continued to provide interest subsidies to non-government schools in the 1990s. The tax deductibility of donations to school building funds continues.

was politically close to the Liberal party (Smart 1978: 28). Although the Headmasters' Conference was historically opposed to the provision of direct financial assistance to private schools, its policy changed during the late 1950s as rising costs threatened the viability of some of its members (Smart 1978: 52)[14]. In 1959, the Conference released a statement saying that Independent schools could accept capital grants from the government "without any prejudice to their independence" (Smart 1978: 53). In 1967, the Headmasters' Conference approved in principle the receipt of recurrent funds from the government, clearing the way for the Federal government to introduce recurrent funding for non-government schools (Smart 1978: 53).

Universities were more fortunate than schools during the Menzies government's first decade in office. When the funds for post-war reconstruction began to dry up in the late 1940s, the Universities Commission lobbied for the continuation of Commonwealth financial assistance to the higher education sector[15]. In response, Chifley appointed a committee of inquiry in 1949, headed by Professor R.C Mills. The team was to examine the financial position of the universities, the contributions of State governments and the financial effect of the elimination of the reconstruction training scheme (Tannock 1969: 440). The Mills review was greeted favourably by Menzies who extended its terms of reference to attend to the needs of university residential colleges. On 15 November 1951, Menzies introduced a landmark *States Grants (Universities) Bill* which installed a permanent system for funding universities.

Within a few years of receiving funding under the *States Grants (Universities) Act 1951,* the Australian Vice-Chancellors' Committee published a document entitled *A Crisis in the Finances and Development of the Australian Universities*, which demanded a national plan to fund further growth in the sector. Menzies appointed another committee of inquiry to review the needs of universities headed by Sir Keith Murray, the chair of the Universities Grants Commission of Great Britain. The Murray report recommended a major expansion of Federal funding for universities and the establishment of an Australian Universities Commission. The Menzies government adopted the Murray Committee's recommendations in full and in 1959, established an Australian Universities Commission which "became the most powerful agency of the Federal government's program of aid to the tertiary educational institutions" (Tannock 1969: 482). Over the next three years, the public resources provided to universities doubled. By 1962, more than eighty per cent of the universities' total income was sourced from government (Mathews 1972: 86)[16].

> If most of the Commonwealth's decisions to instigate secondary and technical education programs during the 1960s were a result of political promises made at election time by Prime Ministers, the same could not be said for its university and other higher education programs. These were essentially the

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[14] Any program of direct government assistance would be of more benefit to Catholic schools than to Protestant schools, and old sectarian jealousies fuelled the Independent schools' opposition to state aid (Smart 1978: 52).

[15] Tannock cites sources of the pressure on the Federal government as "frequent deputations from University Senates and the numerous visits to Canberra by the vice-chancellors of various universities, the State governments and . . . the Federal Parliament" (Tannock 1969: 443).

[16] Proportions are derived from Table 6.10 in Mathews 1972: 86.

> result of government action on the recommendations of the Australian universities Commission and its associated committees.
> (Tannock 1969: 526)

The Federal government's long association with universities and the close links forged by the Australian Vice Chancellor's Committee and the Commonwealth through the Universities Commission created a sense of responsibility towards universities that was absent in Federal deliberations about schools. Although Commonwealth funding to schools eventually commenced in the early 1960s, the differences in origin continued to influence the process of Federal policy development for each level of education.

2.3 Australian Education Council

Menzies always argued that he would not provide any assistance to schools because the States had not requested it and any intrusion by the Commonwealth would infringe States' rights. In 1936, the State Education Ministers formed a national Ministerial Council with the intention of making representations to the Commonwealth, but their capacity for effective lobbying was limited (Spaull 1987: 4)[17]. Spaull's research suggests that the Commonwealth's generosity to universities in response to the Murray report prompted the State Directors-General of Education to encourage their Ministers to "go public" about the financial needs of government schools. In 1959, the State Ministers of Education agreed to adopt the universities' tactics of developing a statement on the financial needs of Australian schools to place pressure on the Federal government. It took several years to produce the statement as the process was hampered by the changing political persuasions of the members. It was eventually placed on the agenda of the 1962 and 1963 Premiers' Conferences, under the title of *A Statement of Some Aspects of Australian Education* (Spaull 1987: 115). The Statement argued that investment in education was a key factor in economic growth, that overseas countries were investing heavily in education, and that under-investment would endanger "future standards of national development" (Spaull 1987: 114).

When the *Statement of Needs* was put to the Premiers' Conferences of 1962 and 1963, it said that the States needed additional current assistance of 3.5 per cent per annum over the next four years to meet minimum teaching standards (Australian Education Council 1963). Because the major injection of additional funding from the Commonwealth was not forthcoming, State recurrent outlays on schooling subsequently increased by an average of 8.1 per cent per annum between 1963-64 and 1971-72 in constant prices – more than double what had been requested from the Federal government (Karmel 1973: par 4.30)[18]. The size of this increase in outlays sourced from State budgets raises questions about the extent of the financial "crisis" that was invoked to justify the demands for Commonwealth intervention. It also casts doubt on the received wisdom that the States could not afford the costs of education due to the vertical fiscal imbalance caused by uniform taxation arrangements (see Smart 1978, and Mathews 1983).

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[17] The Australian Education Council's first request to the Commonwealth – in 1937 – was for capital funds to revitalise technical education, to which the Federal government eventually responded with an amount one-tenth of the sum requested.

[18] On a per student basis, the increase per pupil between 1963/64 and 1971/72 was an average of 4.3 per cent per annum in real terms (Karmel 1973: par 4.31).

Although Menzies rejected the States' request for current financial assistance for schools, in 1964, the Federal government introduced Senior Secondary scholarships and capital grants for science facilities in government and non-government schools. The main effect of the States' request was to remove any political and constitutional impediment to the introduction of direct Commonwealth assistance. Throughout the 1950s, Menzies maintained that as the States had never requested assistance for schools, Commonwealth intervention would be unconstitutional. The fact that States requested Commonwealth assistance in 1963 reduced the likelihood of any State challenging the legitimacy of Commonwealth involvement, either politically or through the High Court.

2.4 Catholic campaign for state aid

During the 1960s, a nationwide campaign for the provision of state aid to non-government schools placed political pressure on both the Federal and State governments to introduce direct funding for schools. A century earlier, the Catholic Church had decided to finance its own system of schooling, in a rejection of perceived State government interference in religious schools (Austin 1961: 202-229). By devolving responsibility for Catholic schools to the parish level and utilising the labour of religious orders, the Catholic Church established a large system of parochial schools funded entirely from community resources. This system survived for almost one hundred years until rising participation rates in the post-war years placed a strain on the finances of Catholic parishes. In the 1960s, the Catholic campaign for state aid was so successful that it forced a change in the Labor Party's platform and saw the introduction of direct current funding for private schools, first in Victoria and other States in 1967, followed by the Commonwealth government in 1969.

The Catholic campaign for state aid was initially mounted by Catholic parents' groups who by 1960 had emerged in most States to press for direct government assistance to private schools. The cause was embraced by the Roman Catholic Bishops who released a statement in 1961 calling for a per capita grant for each child in a non-government school to be provided by the States and possibly the Federal government (Smart 1978: 55). The campaign was pursued at the State level by individual Bishops with a great deal of success, and a National Catholic Education Committee was established under the leadership of the experienced Sydney Archbishop James Carroll (Davis 1974, Hogan 1978, 1984). In the early 1960s, when the allocation of Democratic Labour Party preferences was significant factor in the electoral prospects of the major parties at both the State and Federal level, the time was ripe for the Catholic Church to mount a nationwide campaign for state aid to private schools.

Prime Minister Menzies was committed publicly to the principle of federalism and argued that education should remain the responsibility of State governments (Menzies 1961). However, his actions in office during the 1950s revealed his readiness to override federalist principles on issues that attracted his personal sympathies or would lead to political advantage. In the early 1950s, Menzies provided taxation concessions for private school fees and donations to school building funds. In 1956 he provided interest subsidies to assist the establishment of private schools in the Australian Capital Territory. In 1957, he ensured that Commonwealth assistance to universities more than

trebled in the wake of the Murray review (Menzies 1970: 90). State aid became a Federal political issue in the early 1960s when the Coalition held government with a one-seat majority. When it became apparent that the Labor Party was divided over the state aid issue, Menzies embraced state aid for non-government schools in a successful ploy to remain in office.

> The 1960s became the decade of a state aid electoral auction, with the major parties vying at election times to attract voting support with offers of new forms of aid or greater amounts of money (Hogan 1984: 3)

During the 1950s, the Labor Opposition had regularly attacked Menzies for not implementing the secondary school scholarship scheme proposed by the Office of Education when Menzies won office in 1949. In 1961, the Labor Party promised to introduce a scheme of senior secondary scholarships tenable at both government and private schools – a proposal which aimed to win back alienated Catholic voters (Albinski 1966). The Menzies government almost lost the election and was returned to power by a one-seat majority in 1961. A government *White Paper on Education* presented late in 1962 repeated the Menzies policy of opposition to Federal involvement in schooling. However, within a year, Menzies had reversed his long-held position of opposition to Federal assistance to schools in a successful strategy to highlight the divisions in Labor ranks. In 1963, a decision by the New South Wales Labor government to grant State aid to parents in private schools invoked intervention by the Federal Executive to override State government policy. This well-publicised clash over Labor policy on state aid is believed to have contributed to Menzies' decision to call an early election in 1963, one year before it was due (Smart 1978: 64, Oakes 1973: 104).

In his election policy speech on 6 November 1963, the leader of the Opposition, Arthur Calwell, promised to introduce an unspecified number of senior secondary scholarships, available to all students meeting a qualifying standard, tenable at both State and private schools, and means-tested according to family income. He also promised an emergency grant of 10 million pounds to the States for urgent educational needs, and an investigation into the further needs of State education systems (Tannock 1969: 347). A week later, in his election policy speech, Menzies promised to introduce 10,000 senior secondary scholarships of up to 200 pounds per year, without a means-test, for students at both State and private schools. He also promised 10 million pounds in capital grants for science facilities at State, technical and private schools. Menzies' promises were made without consultation with his party (Smart 1978: 71). He reversed his well-documented opposition to the provision of direct Federal assistance to school education in a clever strategy to remain in office.

> (Menzies) capitalised on rather than lost by his audacious move on direct State aid (because) his very ability to put forward a distinct State aid program, defend its merits, and ultimately give credible promise of enacting it stood in sharp contrast to Labor's agonies on this topic. The Government's overall image was made to appear clear, decisive and resolute, while Labor's was ambiguous, timid and irresolute (Albinski 1966: 24).

The Coalition government won a landslide victory in 1963 and implemented the first Commonwealth programs of direct assistance to schools and secondary students in

1964. The reversal of the Coalition government's opposition to state aid in November 1963 appeared to be motivated purely by political expediency (Hogan 1984, Smart 1978, Tannock 1969). As an editorial in the Catholic *Advocate* summed up in 1966,

> The changed attitude of the Liberal and Country Parties, it may be freely admitted, is due more to an enlightened perception of economic and political facts than any great zeal for educational justice. They perceive that this further expansion of state aid proposals is an excellent means for winning the votes of Catholics and others involved in support of the denominational school system (*Advocate,* 17 February 1966).

The Catholic campaign for state aid was a political headache for the Federal Labor Opposition in the 1960s as their party's policy platform barred the provision of direct government assistance to private schools. Since the 1957 Federal Party Conference, the ALP's platform had supported the "promotion of secondary and higher education by bursaries and scholarships and other benefits payable directly to students". Although the platform did not outlaw state aid to private schools specifically, it could be interpreted as doing so, and the meaning remained open to interpretation by the left and right wings of the party (Freudenberg 1977). The policy was not an electoral liability for the Federal Labor Party until the 1963 election.

The battle within the Labor party to change its policy on state aid during the 1960s was inextricably linked to the issue of party reform. According to Oakes, Whitlam's three great battles between 1963 and 1967 were: the reform of the Federal Executive (the "faceless men" issue); the state aid policy; and the removal of the leader Arthur Calwell (Oakes 1973: 101). In the early 1960s, several initiatives by State Labor governments granting some form of assistance to private schools, were overruled by the Federal executive, highlighting the Party's internal divisions (Oakes 1973: 104). In 1965, when Labor lost government in New South Wales and Western Australia, Whitlam attributed the loss to the Federal Executive's intransigence over the state aid issue (Oakes 1973: 119). In February 1966, after a promising by-election campaign in Queensland was de-railed by a pronouncement on state aid by the Party's Federal Executive[19], Whitlam launched a public bid to change the ALP policy. In July 1966, the Party's platform was changed – by a narrow majority – to endorse the principle of direct aid to non-government schools (Oakes 1973: 144). This amendment and Whitlam's promise to "bury" state aid as an election issue won the support of prominent Catholic state aid campaigners such as Sydney Archbishop James Carroll who helped to win back the Catholic vote for Labor in 1972 (Oakes and Solomon 1973). The 1972 election victory marked the end of a decade where internal divisions over state aid had helped prevent the Labor Party from gaining office.

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[19] At the instigation of their left-wing President, Chamberlain, the Executive announced that the Party's legal committee would investigate the legality of State aid with a view to a constitutional challenge in the High Court, and that labor MPs were to oppose any further grants for science laboratories and campaign only on the issue of direct assistance to students (Oakes 1973: 125).

2.5 High Court challenge to funding for private schools

Towards the end of the 1960s, a Council for the Defence of Government Schools (DOGS) emerged to organise opposition to state aid for private schools. Hogan describes DOGS as a "coalition of people from government school teachers' unions and parents' groups, allied with sectarian Protestant leaders and anti-religious rationalists" while noting that the "bigoted Protestant element" had disappeared by the 1970s (Hogan 1984: 8). Although the group failed to exert any political influence, it mounted a High Court Challenge to the validity of Commonwealth aid to private schools which languished in the Court for almost a decade before it was dismissed by a majority of six to one, on 10 February 1981.

The main argument in the DOGS case was that funding for private schools contravened Section 116 of the Constitution:

> 116. The Commonwealth shall not make any law for establishing any religion, or for imposing any religious observance, or for prohibiting the free exercise of any religion, and no religious test shall be required as a qualification for any office or public trust under the Commonwealth.

The plaintiffs argued that as the religious and secular components of the educational programs in private schools were inseparable, Commonwealth funding was being used to sponsor religion[20]. The DOGS case relied heavily on the judicial interpretation of the first amendment of the American Constitution – upon which Australia's Section 116 had been based – which outlawed any form of direct government assistance to Church schools. The Australian High Court Justices who dismissed the DOGS case played down the significance of any link between the American and Australian Constitutions. They also adopted a narrow interpretation of the concept of "establishment" to mean "statutory recognition of a religion as a national institution" (Wilson, J), rather than the broader definition of "sponsorship" or "support" which had applied in the United States (Murphy, J). The six Justices also accepted the defendants' argument that the main activity of non-government schools was educational rather than religious, therefore "it cannot be said that the primary purpose of the legislation is to advance religion" (Wilson, J)[21].

3 Funding schools on the basis of "need"

Both the Catholic schools' campaign for Federal assistance and the States' request for direct funding were framed in terms of general financial "needs" rather than specific policy objectives. As there was no obvious policy role for the Federal government in schools until the advent of human capital theory in the 1960s, the demand for Federal

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[20] The plaintiffs also argued that the payment of grants to non-government schools via the States was not a payment of monies to the States and therefore violated the spirit of Section 96 of the Constitution. However this approach had been upheld in previous judgments and was not considered a strong argument.

[21] This analysis is based on the written judgments of each member of the High Court – Barwick C.J. Gibbs J, Stephen J, Mason J, Murphy J, Aickin J, and Wilson J. in *Her Majesty's Attorney-General for the State of Victoria (at the relation of Black and others) and others v. The Commonwealth of Australia and others (1981).*

assistance focused on the alleviation of a financial "crisis" in schools funding. In the 1940s, the Australian Teachers' Federation had begun a public campaign for Commonwealth involvement in education. This contributed to the decision to include education among the powers to be asked for in the 1946 constitutional referendum (Smart 1978: 23). The concept of financial "needs" as presented by the Australian Education Council in 1961 was modelled on the Australian Vice-Chancellors' Committee's successful campaign for Commonwealth assistance to meet the financial "needs" of universities (Spaull 1987). The Catholic campaign for state aid to private schools during the 1960s also focused on Commonwealth assistance to meet the financial "needs" of non-government schools.

Menzies resisted the "financial needs" approach, and chose to target capital funding to science facilities, then to school libraries, in addition to the provision of secondary scholarships. These programs were targeted to meet specific policy objectives and the funding was capped at a pre-determined level. Menzies had retired as Prime Minister when State governments introduced direct assistance for private schools in 1967, and the Federal government introduced recurrent funding for non-government schools two years later.

The *States Grants (Independent Schools) Act 1969* authorised payment per annum of $35 per primary student and $50 per secondary student from the beginning of 1970. Funding was not capped and any student enrolled in a registered private school was eligible for the Commonwealth subsidy. In May 1972, its last year in office, the Federal Coalition government provided further Commonwealth recurrent assistance to non-government schools as part of a package of measures that included capital grants for both government and non-government schools. The Coalition government also announced its intention – from January 1973 – to provide per capita grants for students in non-government schools at a rate of twenty per cent of the cost of educating a child in a government school.

3.1 Karmel report

In the early 1970s, Australia's total public outlays on school education were only 2.6 percent of Gross Domestic Product, below the OECD average of 3.3 per cent (OECD 1976: 19). By 1975-76, after the Federal Labor government's three years in office, total public outlays on school education in Australia had increased to 3.6 per cent of GDP. While Commonwealth expenditure accounted for 10 per cent of total schools expenditure in 1971-72, by 1975-76 the Commonwealth's contribution had risen to 24 per cent of total outlays on schools (ABS Cat No. 5510.0).

When the Labor Party was elected in December 1972, Prime Minister Whitlam and his deputy, Lance Barnard, conducted a two-man Ministry during the two weeks prior to Christmas. This Ministry established the Interim Committee of the Australian Schools Commission, chaired by Peter Karmel and consisted of representatives of both Protestant and Catholic non-government schools, State Education Departments, teacher unions and parents' organisations. In its terms of reference, the Committee was asked to

> . . . make recommendations to the Minister for Education and Science as to the immediate financial needs of schools, priorities within those needs, and appropriate measures to assist in meeting those needs, including . . . – grants from the Commonwealth to the States in respect of both government and non-government schools; (Karmel 1973: 1)

When the Karmel Committee assessed the resource needs of government schools, there was little evidence of a funding crisis in State education systems. The Committee noted that "the past decade has witnessed more than a threefold increase in public expenditure on both government and non-government schools in the various States"(Karmel 1973: par 4.30)[22]. The Committee noticed different levels of resource use between the States and said that one goal of Federal funding would be to reduce the differences in funding needs between State systems. The Committee therefore recommended different levels of funding to each State system to compensate for lower levels of resource use in secondary schools (par. 6.13)[23]. In 1978, the Schools Commission abandoned this approach and introduced a uniform per capita grants system for government schools. Over the long term, the Commonwealth's involvement has had no impact on the amount of variation in resource use between States, as shown in Table 2.1.

Table 2.1 Government schools' recurrent resources index, 1972, 1976, 1994.

	Primary			Secondary		
State	**1972**	**1976**	**1994**	**1972**	**1976**	**1994**
NSW	*99*	*92*	*93*	*95*	*90*	95
Victoria	101	104	99	100	110	98
Queensland	100	104	94	99	*90*	*91*
South Aust.	102	104	**114**	106	**112**	**118**
West Aust.	97	101	97	**113**	109	102
Tasmania	**103**	**111**	104	109	103	96
All States	100	100	100	100	100	100

Sources: Karmel (1973) *Schools in Australia;* Schools Commission (1978) *Report for the Triennium 1979-81*, April: 29; MCEETYA (1996) *Statistical Annex, National Report on schooling in Australia 1994*: 36).

The Karmel Committee found it easier to identify the financial needs of non-government schools because they could be benchmarked against the government school system. The Committee noted that Catholic schools operated at about four-fifths of the resource levels of government schools (par 6.40). On the Committee's recommendations, the Commonwealth allocation for Catholic schools more than doubled from $18 million in 1973 to $38 million in 1975.

For the remaining non-government schools, the Committee noted wide variations in resource use. While twenty-five per cent of these schools operated below the average for government schools, fifty per cent operated above average State levels. The Committee therefore recommended that the system of uniform per capita grants be

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[22] ie. in current prices, without taking inflation into account.

[23] States with lower resource-use indices for secondary school systems were to be allocated larger grants as a short term measure to overcome the inequalities in resource use (Karmel 1973: 6.35).

replaced by differential funding, and that the schools be divided into eight funding categories. The Committee also recommended the phasing out over two years of all funding for schools in the lowest funding category (those with the highest resource levels).

The recurrent funding program accounted for almost fifty per cent of Commonwealth schools funding under the Karmel Committee's recommendations. The remaining expenditure was divided between a capital grants program and a targeted grants program as illustrated in Table 2.2.

Table 2.2 Commonwealth Schools Programs expenditure 1974-1975 ($m)

Type of Program	State Schools	Private schools	Joint programs	Total	*Distrib-ution (%)*
General Recurrent Grants Program	175.9	133.4	-	309.3	***48***
Capital Grants Program	197.3	39.7	-	237	***36***
Other Targeted Programs	87.3	6.2	16.5	110	***17***
Total	460.5	179.3	16.3	656.3	***100***
Distribution (%)	***71***	***27***	***3***	***100***	

Notes: Expenditure in 1973 prices
Sources: Karmel (1973) *Schools in Australia*, Table 14.3

The Karmel report gave a detailed picture of school education in Australia, based on consultations with education experts and school authorities. It emphasised the importance of equality of opportunity for students, diversity in schools provision, and devolution of school management. It identified the specific priorities of Aboriginal education, migrant education, isolated children, socio-economically disadvantaged schools, teacher training, and special education for students with a disability. These priorities all received funding as individual targeted programs, which accounted for 17 per cent of the expenditure recommended by the Committee.

The Committee produced its report within five months and the Whitlam government introduced new schools funding legislation in 1973 to commence in January 1974. To obtain Opposition support to get the Bill through the Senate, the government had to change the policy to phase out recurrent grants to high fee Independent schools. The Coalition then agreed to support the Bill by allowing members of the Country Party to cross the floor in the Senate to vote with the Labor government.

3.2 Schools Commission

The Australian Schools Commission was established on 1 January 1994 under the Chairmanship of Dr K. R McKinnon, and several members of the Interim Committee were appointed on it. The Act establishing the Commission reflected the government's hopes for an extraordinary level of consensus that would lay to rest the state aid debate.

The Act stated that in its work, the Commission should "have regard to" two principles: first that "the primary obligation . . . of governments to provide and maintain government school systems that are of the highest standard and are open, without fees or religious tests, to all children"; and second, "the prior right of parents to choose whether their children are educated at a government school or at a non-government school". These two principles proved difficult to reconcile in practice, particularly when limits were placed on total government outlays (Blackburn 1977: 195, McKinnon 1984).

Like the Interim Committee, the Schools Commission was composed of representatives of the government school sector, parents' organisations, teacher unions and non-government school lobby groups – chiefly the National Catholic Education Commission (NCEC) and its non-Catholic counterpart, the National Council of Independent Schools Associations (NCISA). Although the Act establishing the Schools Commission contained no special provisions for representation of particular interest groups, the most significant educational lobby groups were always represented. The Coombs Royal Commission on Australian Government Administration noted that, "the 'representativeness' of the Commission is motivated more by desire to conciliate the established bases of power than to gain access to a wide range of expertise" (Coombs 1976: 139). The links between the Commission and the funding stakeholders were strong. The lobby groups appointed senior and experienced representatives to the Schools Commission. Although the Chairman of the Commission was usually independent of any particular interest group, when Dr Peter Tannock's term as Chairman ended in the mid-1980s, he took up the position of Executive Director of the Western Australian Catholic Education Commission.

The era of the Whitlam Labor government was the "Golden Age" of Commissions, several of which the government established to obtain advice that was independent of the permanent Federal bureaucracy. The Schools Commission provided a national forum for teachers and others involved in education and some of its targeted programs were at the forefront of educational change. For example, the Disadvantaged Schools Program and the Country Areas Program fostered the involvement of parents and community groups in school policy development. In the early 1980s, the Commission funded a program called "Basic Learning in Primary Schools" which supported initiatives in literacy and numeracy development (McKinnon 1984, Connell 1993: 279-282). The Commission also raised awareness of gender equity issues in teaching and learning, leading to the development of a national policy for the education of girls (CSC Working Party on the Education of Girls 1984).

> The Commission was, in the jargon of the time, a consciousness-raising body of considerable importance. It made educators much more aware of the inequities in educational provision and practice that existed in Australian education; it stimulated community interest and participation in education; and it provided an authoritative critique of established educational practices (Connell 1993: 280).

On the key issue of recurrent funding – its largest program of schools expenditure – the Schools Commission was incapable of providing independent advice or sponsoring

innovation[24]. Given that its members were all recipients of Federal funding, the Commission's advice on funding was the best possible compromise that could be obtained between the competing interests of powerful stakeholders. Such a compromise could only be obtained by promising more money to everyone. This meant that the Commission's advice always recommended increased levels of funding across the board, and never attempted to redistribute funding between the various education interests (SC 1975, 1980, 1981, CSC 1984a).

Like Frankenstein, the Schools Commission quickly became a political "monster" of the government's creation. Established as a source of expert policy advice, the Commission afforded all stakeholders a prominent platform from which to lobby for increased funding. Membership of the Commission equipped representatives of interest groups with information about funding policy, gave them ready access to government, and lent a legitimacy to their complaints when they did not get what they wanted. While membership of the Commission did "conciliate the established bases of power" temporarily, it also increased the political power of stakeholders as pressure groups.

By establishing the Schools Commission as both an advisory and a funding body, the government was asking the stakeholders to tell it how much money they wanted – in the full expectation that the government would comply. This approach soon created problems for the government. The Karmel Committee's funding recommendations for 1974 and 1975 were accepted in total by the Labor government, amounting to an increase in Federal spending on schools of 300 per cent over two years (Karmel 1973: par 14.11). However in 1975, the Labor government deferred the Commission's recommendations for a triennial funding program for 1976-78 and held schools funding at existing levels in real terms (*Commonwealth Budget Papers 1975-76*). In 1978, the Coalition government rejected the Commission's recommendations and provided budgetary guidelines for the Commission's policies on schools funding in the future.

The imposition of budgetary constraints created tensions among stakeholders on the Commission, particularly between the representatives of government and non-government schools. In 1984, consensus broke down when the two representatives of the Australian Teachers' Federation and the Australian Council of State Schools' Organisations (ACSSO) presented a minority report to a Commission document about schools funding policies. The dissenting report raised the question of the relative decline in Commonwealth support for government schools and the impact of the increase in non-government schools on the quality of the government systems (CSC 1984b). With the Commission's influence waning, its major programs were transferred to the Department in 1985 and it was abolished in 1987 (Connell 1993). The schools programs remained intact and most of the Commission's staff were transferred to a Schools Division in the Federal Department of Employment, Education and Training[25].

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[24]Although the Schools Commission did come up with some innovative proposals for schools funding, such as the "supported schools" concept, it was never able to obtain the agreement of its members to change the schools funding arrangements (see Chapter Four).

[25]When Dawkins abolished the Schools Commission and the Tertiary Education Commission in 1987, he replaced them with a Schools Council and a Higher Education Council, under the structure of the National Board of Employment, Education and Training. While the membership of the new Schools Council was mainly representative of interest groups, the function of the Council was limited to an advisory capacity,

3.3 The eight-year funding scheme

In 1983, the new Labor government implemented policies of fiscal restraint and established an Expenditure Review Committee (ERC) to vet the budget proposals of portfolio Ministers. Pressed to obtain savings from the education budget, the Federal Minister for Education, Susan Ryan implemented the long-held Labor policy to phase out grants to private schools with the highest level of private resources. She announced the withdrawal of funding to the forty-one schools which operated at above average resource levels which would save $4 million from the Federal education budget. At the same time, Ryan announced a review of the funding system for non-government schools.

By November 1983, the Australian Parents' Council, which represents mostly parents from Independent Schools, had launched a national campaign against the Federal government. Warning that "Ryan's hit list" was the thin end of the wedge for all non-government schools, the APC gathered support from parents across the non-government sector. Five thousand people attended a rally in Sydney in November 1983, and five thousand more attended a similar meeting in Melbourne. Ryan's refusal to attend the first rally in Sydney attracted such negative criticism from the media that she was compelled to attend future meetings to defend the government's actions. In spite of the fact that Catholic schools were not affected by the government's "hit list", the Catholic Education authorities tacitly supported the APC campaign and parents from Catholic schools filled most of the seats at the mass public meetings organised by the APC (Hogan 1984).

The timing of the funding review became problematic when the Prime Minister decided to call an early election in 1984. As the snap election proved politically unpopular, the government had to fix any problems that might threaten its chances of re-election. In an humiliating snub to Susan Ryan, Prime Minister Hawke intervened to resolve the dispute over non-government schools' funding by meeting personally with members of the Catholic Bishops Conference (Ashenden 1989). The settlement negotiated by Hawke and his staff guaranteed funding levels to non-government schools for the next eight years. Under the deal, grants for the forty-one "hit list" schools would be maintained in real terms, while Catholic schools would receive real increases in per capita grants on a sliding scale from 6 per cent in the early years phasing out to less than one per cent in 1992. Government schools also received real increases in their per capita grants. After the Hawke Labor government was returned to office in 1984 with a reduced majority, the first four years of funding were guaranteed in legislation.

3.4 Federal schools funding since 1988

After the 1987 Federal election, the former Finance Minister, John Dawkins replaced Susan Ryan as Minister of a new portfolio of Employment, Education and Training, and both the Schools Commission and Commonwealth Tertiary Education Commission were abolished. Initially, Dawkins attempted to reduce the level of consultation with

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and it was not included in the Budget deliberation process. The National Board and most of its Councils were abolished by the Coalition government in 1996.

interest groups, refusing to meet with the National Catholic Education Commission and other stakeholders. The Bishops reacted by arranging an appointment with the Prime Minister, who in 1984 had undertaken to meet them at any time they had concerns about school education policy. Once he had been made aware of the significance of the understanding between the Prime Minister and the Catholic Bishops, Dawkins thereafter consulted the NCEC prior to making any changes to Commonwealth funding policy for non-government schools.

As a former Finance Minister and a member of Cabinet's Expenditure Review Committee, Dawkins was committed to finding budgetary savings in schools expenditure (Pusey 1991: 147)[26]. The legislation for the second four-year period of the eight-year funding scheme was due to be introduced after the 1988 Federal budget. In the lead-up to the government's May 1988 Economic Statement, Dawkins considered a series of options to reduce the funding increases promised to non-government schools between 1989-1992, aiming to save about $40 million against the forward estimates. At the same time, his Department calculated the cost of the recently awarded second tier wage increase of 4 per cent for teachers in government and non-government schools. Normally, wage increases for teachers were incorporated into the Schools Prices Index (SPI), the mechanism for adjusting the level of Commonwealth grants to schools to reflect real costs (see Appendix Four). Because the cost of the 4 per cent productivity wage increase was more than $40 million, Dawkins proposed to exclude the 4 per cent productivity increase from the Schools Prices Index instead of re-negotiating the eight-year funding scheme. Such an action could be justified, he suggested, by the fact that the 4 per cent wage increase was supposed to have been granted on the basis of genuine improvements in teacher productivity. The National Catholic Education Commission accepted this proposal and the previously agreed funding schedule for 1989-1992 remained in place (Dawkins 1988b).

Prior to the 1990 Federal election, Dawkins sought to finalise the issue of funding for non-government schools beyond 1992. In 1989 he released a discussion paper outlining proposed funding arrangements for the eight year period 1993 to 2000. He proposed to award no more increases in funding to government schools whereas Category 10 schools and above – mainly Catholic schools – would be given annual real increases of 1.8 per cent per year until 2000 (DEET 1989). But reaching agreement on schools funding three years in advance did not help Dawkins to quarantine schools funding policy from an "electoral auction" in 1992.

In the 1987 and 1990 Federal elections, the Coalition's funding policy had posed no threat to the government's relationship with the non-government schools' lobby because it had not offered any additional benefits to Catholic schools. This changed when the Coalition's *Fightback!* policy was released late in 1991. Under *Fightback!* the Coalition promised increased funding to Catholic schools of more than 4 per cent per year between 1994 and 1996, funded through a consumption tax. This gave the National

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[26] The Expenditure Review Committee was established by the Hawke Labor government in 1983 to consider all proposals for new expenditure prior to their consideration by Cabinet. The original members of the Committee were Bob Hawke, Paul Keating, John Dawkins, Ralph Willis and Peter Walsh – most of whom were committed to the principles of economic restraint (Walsh 1995: 101).

Catholic Education Commission an opportunity to negotiate increased funding in return for Catholic support in the lead-up to the 1993 Federal election.

Early in 1992, the National Catholic Education Commission presented the new Federal Minister for Employment, Education and Training, Kim Beazley, with several options for new funding arrangements for capital and recurrent funding beyond 1992. Each option was a re-configuration of the agreed funding scheme for 1993-2000 that would provide an increase in funding similar to that promised in *Fightback!* In response, in its 1992-93 Budget, the Labor government provided an additional $140 million to the capital grants program over four years and made a one-off injection of $40 million (ie. 4 per cent) to the base funding of the general recurrent grants program (*Commonwealth Budget Papers 1992-93*). This change effectively restored the money Dawkins had saved by excluding the 4 per cent wage adjustment from the SPI four years earlier.

When the Coalition government won office in March 1996, it promised to review the Education Resources Index, which determines a school's funding level under the General Recurrent Grants Program (see Appendix Four)[27]. The review commenced an extensive consultation process and released a discussion paper in 1997 (DEETYA 1997b). The government delayed its announcement on the outcome of the review until after the Federal election in October 1998. In its election campaign, the Labor Party promised an additional $85 million a year in general recurrent funding for Catholic schools, based on a re-categorisation of their funding from Category 10 to Category 11 (Australian Labor Party 1998). Within a week, the Coalition parties also promised $85 million a year to the Catholic system. This provoked the ire of non-Catholic private schools, who had received no promise of increased funding. The Chief Executive Officer of the Association of Independent Schools of Victoria criticised the promises to Catholic schools as "political expediency", accusing both parties of "target(ing) public resources on the basis of perceived vote-catching, not on the basis of some objective or transparent measure of relative needs of students" (Ogilvy-O'Donnell 1998).

3.5 Changes in Commonwealth expenditure on schools

Although the structure of Commonwealth schools programs has not changed in the 25 years since they were introduced, the distribution of total program expenditure is now quite different. As shown in Table 2.3 compared to Table 2.2, the general recurrent grants program now dwarfs other programs (82 per cent of all funding compared to 48 per cent in 1974) and the major funding recipient has shifted from government to non-government schools (60 per cent in 1998 compared to 27 per cent in 1974).

The shift in the balance of Commonwealth school education expenditure between 1974 and 1998 is indicative of the power of non-government schools as a sectional interest group. The interests of the sector are represented by the National Catholic Education Commission (NCEC), the National Council of Independent Schools Associations (NCISA) and the Australian Parents' Council (APC). When Labor is in government the NCEC has insider status in negotiating government policy, whereas the NCISA and the APC are more influential with a Coalition government. As all three groups support the

[27]The Coalition also promised to abolish the New Schools Policy which is discussed in Chapter Four.

common goal of securing Federal funding for non-government schools, the emphasis of Commonwealth policy only differs by degree, favouring either Catholic or non-Catholic schools, depending on which party is in office.

Table 2.3 Commonwealth Schools Programs expenditure 1998 ($m)

Type of Program	State Schools	Private schools	Joint programs	Total	*Distrib-ution (%)*
General Recurrent Grants Program	1,008.5	1,990.9	-	2,999.4	*82*
Capital Grants Program	212.4	83.5	-	295.9	*8*
Other Targeted Programs	227.4	113.2	13.9	354.5	*10*
Total	1,448.3	2,187.6	13.9	3,649.8	*100*
Distribution (%)	***40***	***60***	***0***	***100***	

Notes: Expenditure in 1998 prices. Expenditure on General Recurrent Grants for government schools takes into account the deduction for the Enrolment Benchmark Adjustment.

Source: DEETYA (1998) *Commonwealth Programmes for Schools Quadrennial Administrative Guidelines 1998.*

The non-government schools' lobby groups all exhibit Eckstein's indicators of effective lobbying influence – size, money, media influence and members in influential positions (Eckstein 1960: 23). The groups are structured on hierarchical lines which mirror the structure of government and give their leaders the authority to negotiate with Ministers without involving rank and file membership. Their political power lies chiefly in their ability to marshall large numbers of people at short notice to attract media attention and to pressure the government on policy issues. This power was last used to considerable effect in 1983 when mass rallies were organised to oppose the policy direction of the new Labor Education Minister, Susan Ryan. There are a few non-government schools which do not enjoy the power of the NCEC, the APC and the NCISA. The majority of private schools outside of the Catholic system over the past decade have been small schools under the auspices of local religious communities (McKinnon 1995a). Although these schools are represented at the Federal level, they do not have the influence of the major lobby groups, and do not possess any of Eckstein's indicators.

4 National cooperation in schooling

After 1987, as general recurrent funding absorbed an increasing proportion of Commonwealth outlays on schools, the Federal government sought to influence education policy through cooperative arrangements with State and Territory Education Ministers (Lingard et al. 1993). This was in keeping with a more general "shift in the rules of the game of federal politics towards collaborative, as distinct from arms-length, patterns of inter-governmental relations" (Painter 1998: 1).

4.1 *"Strengthening Australia's Schools"*

In 1988, the Federal Minister for Education, John Dawkins released a short policy statement called *Strengthening Australia's Schools* which called on State and Territory Education Ministers to address community concerns about an alleged decline in education standards. The document proposed that members of the Australian Education Council work together to minimise the differences between State and Territory education systems in terms of curriculum and school structures, develop a set of agreed national goals for schools, develop an agreed national curriculum and produce an annual national report on schooling (Dawkins 1988a). *Strengthening Australia's Schools* was different to previous Commonwealth initiatives in education because it did not promise any direct financial inducement to the State and Territory governments. In this sense, Dawkins' approach reflected a general disillusionment in Commonwealth agencies about methods of grant administration which relied on inputs rather than outcomes (Painter 1998: 14-15).

After a year of negotiations, the Australian Education Council agreed to participate in a national cooperative effort at a meeting in Hobart in 1989. Over the next four years, the AEC developed agreed national goals for schools, and produced an annual national report on schooling. The most contentious project was the development of national curriculum frameworks to inform parents and employers about the standards of achievement to be expected of students at each level of schooling. After agreeing on eight subject areas, sub-Committees of the Australian Education Council produced draft curriculum documents for each subject over a period of four years, and the final set of documents was presented to the Australian Education Council in June 1993. It was expected that Ministers would agree to publish the documents by 1994 and undertake extensive trialing with a view to implementation by the year 2000 (Watson 1993).

Between 1988 and 1993, the composition of the AEC changed. In 1993, Dawkins was no longer Federal Minister, non-Labor governments had replaced Labor governments in Victoria, Western Australia and South Australia, and the NSW Liberal Minister Virginia Chadwick occupied the Chair. Before the AEC meeting in June 1993, the Liberal Education Ministers caucused and decided to stall the national curriculum process. When the curriculum documents were presented, a long debate ensued and it was finally agreed to take the statements back to the States for further consultations. Although the documents have been incorporated into some State education systems, the momentum for a national curriculum has now disappeared. The Ministerial Council continues to produce the annual national report on schooling and is currently revising the national goals for Australian schools.

The cooperative schooling initiative differed from other Federal government programs because it sought State cooperation without the promise of additional financial resources. The national curriculum process was an attempt to pursue Commonwealth policy objectives through cooperation with State authorities under the mantle of the Australian Education Council. It was assumed that if the States were part of the process, they were more likely to "own" the outcome. This approach also carried the risk that if the States withdrew their cooperation, projects like the national curriculum frameworks

would not survive. Nevertheless, the cooperative approach was entrenched as a means of developing education policy and continued to characterise Commonwealth schools policy initiatives in the 1990s, with varying degrees of success.

4.2 Vocational education in schools

During the 1990s, the Federal government pursued its economic policy goals by initiating significant reforms in vocational education and training[28]. The training reform agenda applied mainly to the provision of industry training within the sector of technical and further education (TAFE), but it also had implications for schools. Vocational education and training takes place in colleges of technical and further education (TAFE), while a small number of secondary schools offer specific vocational courses at the senior secondary level. These courses are designed to meet the needs of students not interested in the more academic curriculum which leads to university entrance examinations. Although fewer than ten per cent of secondary schools offer formally accredited vocational courses, all secondary schools provide a "general education" to students not destined for university entrance in Years 10, 11 and 12. This "general education" is intended to equip students with relevant skills for employment or industry training.

In 1990, the Federal government initiated a collaborative effort through its Ministerial forum, the Australian Education Council, to seek agreement from all States and Territories to improve rates of secondary participation. In July 1991, the Finn Committee, on which all States and Territories were represented, recommended the adoption of a new national participation target: " . . . that by the Year 2001, 95 per cent of 19 year olds should have completed Year 12, or an initial post-school qualification or be participating in formally recognised education or training" (Finn 1991: Rec. 3.2) To meet the target of 95 per cent participation, there had to be significant growth in participation in all sectors, particularly in vocational education and training which needed to expand by over six per cent per year. For schools, the Finn report said that Year 12 retention rates should increase to 80 per cent by 2001[29].

The Finn Committee also concluded that there were essential skills that all young people needed to learn in their preparation for employment. The report proposed that employment-related "key competencies" should be identified in all areas of the school curriculum. The Finn Committee proposed the development of a "standards framework" to describe the nature of each key competency at a number of levels. In response, a committee chaired by Eric Mayer was appointed to identify the key competencies within a framework that would be relevant to schools, the training sector and employers. The Committee concluded that there were seven key competencies that all young people needed to participate effectively in the workplace[30]. The report was

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[28] The most significant reform in the area of vocational education and training was the establishment of the Australian National Training Authority (ANTA) in 1992, described in detail in Painter (1998): 158-173.

[29] Although the size of the 15-19 year old population has declined during the 1990s, this factor was taken into account in setting the Finn target for Year 12 retention.

[30] The seven key competencies are: analysis, communication, planning, teamwork, numeracy, problem-solving and technological skills (Mayer 1992: vii).

consistent with trends in the United States and in the United Kingdom to identify the basic outcomes of school education in terms of workplace skills (Mayer 1992: 13). In defining key competencies, governments sought to ensure that the outcomes of general education in the post-compulsory years were transferable to the workplace, in the name of international economic competitiveness and improving economic productivity.

In response to the Finn report's target of improving participation rates to Year 12, the Commonwealth provided increased financial support to vocational training but did not provide any additional financial assistance to schools. Over subsequent years, participation rates increased in higher education and in vocational education, and the only sector in which there was no progress towards the Finn targets was in schools. In schooling, Year 12 participation rates began to fall almost as soon as the Finn targets were announced. The Year 12 retention rate declined from 77.1 per cent in 1991 to 71.8 % in 1997[31]. There is no indication that the target of 80 per cent retention to Year 12 will be met by the Year 2000, and the goal of increasing Year 12 participation appears to have vanished from the policy agenda of State and Federal governments.

Although the Year 12 retention rate target is no longer a policy goal, in 1996, the Federal government made a financial commitment of up to $187 million over four years to vocational education in schools (DEETYA 1998: 108)[32]. Announced in the 1996 Federal Budget, the Commonwealth's *School to Work* Program provided $23 million over four years for the expansion of accredited vocational education courses in senior secondary schools (Kemp 1996a). As a targeted program, the *School to Work* funding is allocated to State and non-government education authorities on the basis of enrolment share, to be distributed in accordance with principles of a Commonwealth/State agreement. The Commonwealth has retained a "strategic component" of the Program to fund individual projects approved by the Federal Minister (DEETYA 1998: 109).

4.3 COAG's attempt to reform schools funding.

In the early 1990s, Commonwealth funding for schools came under the spotlight in the context of a major review of federal financial relations initiated by central agencies under the auspices of the Council of Australian Governments (COAG). The sheer size of Commonwealth specific purpose payments to schools always ensures that it has a prominent position on any agenda to review Commonwealth/State financial relations (see Chapter Five). But in spite of a concerted effort by central agencies to review Commonwealth schools funding arrangements in the early 1990s, schools funding was dropped from COAG's reform agenda within two years. This result was achieved through political manoeuvres by key players at the Federal and State level and pressure from school education lobby groups.

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[31] The labour market prospects for students leaving school early have not improved: in fact, they got worse over the 1980s. Of 15-19 year olds not engaged in any education or training, a little over half get full-time jobs, a quarter get part-time jobs and the remaining quarter are unemployed (Lamb et al. 1995).

[32] The package of $187 million over four years contained funding earmarked from existing Commonwealth programs such as: ANTA funds ($80m); Australian Student Traineeship Foundation ($78m); and Job Pathways ($6m).

In 1990 at the instigation of the Prime Minister, a Special Premiers' Conference was established to examine the possibility of new financial arrangements that would increase the States' budgetary flexibility. While the Commonwealth's goal was to pursue national micro-economic reform, the States agreed to participate on the condition that the Commonwealth examine proposals to reduce vertical fiscal imbalance (Galligan 1995: 203, Painter 1998: 3). In the forum that became the Council of Australian Governments (COAG), the Premiers sought to reduce vertical fiscal imbalance by two means: first, through some form of shared national income tax arrangement, and second, through a reduction in Commonwealth tied grants (Painter 1998: 39)[33].

To pursue the reform of tied grants, the Prime Minister and Premiers established a Tied Grants Working Group of officials from their central agencies (ie. the Premiers' Departments and the Department of Prime Minister and Cabinet) to examine the prospects for reform of specific purpose payments (SPPs). Their brief was to recommend which specific purpose payments could be "rationalised" by transferring them to untied Financial Assistance Grants (FAGs). The Heads of Government wanted a clear division of responsibilities between the Commonwealth and the States so that services could be assigned to one level of government. Except in genuine cases of "shared responsibility", "funding would have a simple relationship to functional responsibility and adjustments to Financial Assistance Grants . . . would follow as appropriate" (*Communique* 1990, October). The commitment to achieve a "substantial reduction of tied grants as a proportion of total Commonwealth grants" was reiterated at the next Special Premiers' Conference (*Communique* 1991, July). It was generally expected that a proportion of total SPPs would be "traded-off" in the negotiations leading up to the November 1991 Conference.

Whereas the goal of maximising budget flexibility was a high priority among State Premiers and Treasurers, it was not as popular among their portfolio Ministers, who received reliable sources of funding through SPPs. Because the distribution of schools expenditure is calculated on a *per capita* basis, the Ministers in more populous States received higher levels of funding than they would if the allocation were transferred to untied Financial Assistance Grants (FAGs). Furthermore, although SPPs are not affected by the fiscal equalisation formula that determines levels of FAGs, the calculation of a State's level of FAGs takes into account most of the revenue received through SPPs[34]. In effect, State portfolio Ministers receive a reliable source of revenue from Commonwealth SPPs, and the level of untied grants paid to State Treasuries is adjusted to take this into account. While Premiers would gain bigger budgets and more

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[33] The Communique read, "Secondly, in considering the issue of fiscal imbalance, Leaders and representatives recognised that a major concern of the States is how to achieve greater flexibility in the management of their budgets. A substantial factor contributing to that concern is the extent of tied grants – specific purpose payments from the Commonwealth to which detailed conditions are attached in many cases – and the substantial growth in those grants in the post-war period. Leaders have decided that this trend must be reversed; that the goals should be a substantial reduction of tied grants as a proportion of total Commonwealth grants. This would represent a major shift in the development of the Australian Federal system" (*Communique* 1990, Oct: 2).

[34] The fiscal equalisation formula which determines per capita relativities "includes" most SPPs to the States as revenue for meeting States expenditure needs, while it "deducts" most SPPs through the States as expenditure in addition to what the States would otherwise have undertaken (see Budget Papers 1996-97, No. 3: 19).

flexibility from the conversion of SPPs to FAGs, the proposal would diminish the power of State portfolio Ministers, who would have to compete for more of their revenue from State budgets.

At the Federal level, Ministers and Departments which distributed large SPPs were as nervous of fiscal reform as their State and Territory counterparts.

> Commonwealth departments and ministers were not eager to stop trying to control aspects of (for example) school education or community health. The aim was often a substitution of new controls, not their removal or surrender of jurisdiction (Painter 1998: 14).

The public justification for the Federal portfolio agencies' concern was that the Tied Grants Working Group appeared to be heading towards a transfer of SPPs based on principles alone, without taking into account national policy interests.

By placing the review of tied grants in the hands of central agencies, Heads of Government tried to ensure that Federal and State portfolio Ministers (ie. those responsible for granting SPPs and those who received SPPs) would not obstruct the review process. But portfolio Ministers and their agencies moved quickly to counter the new authority of the "central agency club" (Painter 1998: 89). Shortly after the first Special Premiers Conference in October 1990, portfolio Ministers at the State and Federal level commenced their own reviews of SPPs through their Ministerial Councils – in parallel with the working party established by Heads of Government. In December 1990, the Australian Education Council (AEC) and the Ministers of Vocational Education, Employment and Training (MOVEET) established working parties to review schools, higher education and training and labour market programs. The Schools Working Party was asked to address "possible duplications and inefficiencies in Commonwealth and State/Territory provision of programs and services" (*Terms of Reference,* Schools Working Party, December 1990)[35]. The Federal Minister ensured that the terms of reference for the AEC Schools Working Party excluded the issue of SPPs for non-government schools from consideration, except where Commonwealth programs were jointly available to government and non-government schools.

The Ministerial Councils' Working Parties produced reports on each policy area by mid-1991 and passed them on to the Tied Grants Working Group appointed by the Heads of Government. The Federal Minister for Employment, Education and Training used the reports to establish a Commonwealth negotiating position prior to the scheduled November 1991 Special Premiers' Conference. In regard to schools, the AEC review canvassed options for transferring SPPs for *government* schools to FAGs while "broadbanding" the targeted programs as one SPP. The Commonwealth government also considered making direct payments to non-government schools, under the "benefits to students" power, to further reduce the level of Commonwealth SPPs.

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[35] The Schools Working Party was also asked to "have regard to the framework of principles set out in the Communique from the Special Premiers' Conference" (ie. the terms of reference for the tied grants working group) and to "consider proposals put forward by the Commonwealth Minister and any other proposals raised by State and Territory governments".

At the November 1991 meeting of Premiers and Chief Ministers, the AEC and MOVEET reviews were taken into account and the decisions reflected the portfolio agencies' reports[36]. The Premiers and Chief Ministers did not endorse the AEC's principle of "shared responsibility" for school education, but stated that schools were the responsibility of State governments. Nevertheless, they endorsed the funding arrangements recommended by the AEC's Schools Working Party and said that SPPs for government schools ($1 billion p.a) should be transferred to FAGs. They agreed to a tied grant to broadband all equity programs (amounting to $190 million p.a). They also recommended that a tied grant ($1.4 billion) should be retained to fund non-government schools (*Communique* 1991, Nov: 18-19).

The Premiers' decision to transfer government schools funding to FAGs did not proceed. It was scheduled for discussion at the June and November Premiers' Conferences in 1992, but was deferred on the pretext that it should await the Industry Commission's review of Government Service Provision initiated in 1993. The issue was raised again in the lead-up to COAG in February 1994 as a potential trade-off for concessions on micro-economic reform but did not make it to the conference table. The only reform that proceeded was the broadbanding of Commonwealth targeted programs in 1994, which still left the targeted programs as a Specific Purpose Payment.

In principle, schools funding was a prime target for fiscal reform because of the fact that school education was unquestionably a State responsibility under the Constitution. However, there were political barriers to any fiscal reform in school education. The first barrier was the strategic opposition of the Federal and State Ministers responsible for schooling, who ensured that the issue of transferring schools funding to FAGs was sidetracked into processes that remained within their control. The interests of portfolio Ministers were in conflict with the interests of their State Premiers on this issue. Second, a powerful barrier to fiscal reform in Commonwealth schools funding was the opposition of the non-government schools sector, particularly the Catholic Education authorities. As the major recipient of Federal schools funding, private schools had benefited from the division of responsibilities that had provided them with annual increases in funding for twenty years. Although Commonwealth SPPs for non-government schools are paid on a uniform *per capita* basis, if the money were transferred to FAGs, the available resources would vary from State to State and be subject to the fiscal discipline that is routinely applied to FAGs in the Federal government's budget process. Non-government schools representatives also opposed the transfer of SPPs for *government* schools to FAGs in the expectation that such a division would highlight the different funding arrangements for government and non-government schools, and undermine the rhetoric of a Commonwealth "needs-based" funding policy for all schools. Representatives of private schools made their objections clear to Heads of Governments and Education Ministers at both the State and Federal level throughout the review process.

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36 When the Commonwealth government withdrew its offer to consider tax-sharing in October 1991, the State Premiers angrily cancelled the scheduled Special Premiers' Conference in November 1991, and convened their own meeting to which the Commonwealth was not invited (Painter 1998: 41-42). Nevertheless at the meeting, Premiers and Chief Ministers made a number of commitments to pursue the SPC agenda and invited the Commonwealth to join the Council of Australian Governments (COAG) established in May 1992 (Communique 1991, Nov.).

COAG's statements about responsibility for schooling became increasingly contradictory as the Premiers wrestled with the clash between issues of principle and the realities of politics. In their November 1991 *Communique,* even though the Premiers and Chief Ministers stated repeatedly that school education was the sole responsibility of the States, they recommended that only government schools' funding be converted to FAGs, and that non-government schools funding remain a tied grant. Only State Premiers who were committed to the principles of Federal fiscal reform, such as the New South Wales Premier Nick Greiner (Painter 1998: 4), were prepared to brave the opposition of the Catholic Bishops. On several occasions, the New South Wales Premier's Department attempted to have SPPs for non-government schools included in the review being undertaken by the AEC Schools Working Party. But as non-government schools funding had been excluded from the review's terms of reference, officials from the Commonwealth and other States argued successfully that the non-government sector was not within their brief. In 1993, when the new Western Australian Education Minister suggested that the Commonwealth should withdraw from a direct role in funding schools, he drew a swift response from the National Catholic Education Commission.

While the new era of collaborative federalism has produced many policy achievements, the expectation that roles and responsibilities could be determined on the basis of a set of principles has never been realised. Commonwealth schools funding is one example of "short term political and policy concerns (overriding) managerial rationales, with the Commonwealth continuing to be drawn to traditional instruments of control and direction in response to the concerns of clients and pressure groups" (Painter 1998: 15). State and Territory portfolio Ministers united with the Commonwealth Education Minister to ensure that there was minimal change to Commonwealth funding arrangements for schools. Their opposition, combined with the political influence of the non-government schools lobby, weakened the push by central agencies to re-define the Commonwealth's role in schooling. The fact that some aspects of Federal involvement in schools policy have taken a more cooperative turn in recent times does not mean that the major programs of Commonwealth assistance to schools will change. The political forces that have contributed to the current level of Commonwealth involvement in schooling will always seek to ensure that the main forms of Federal assistance to schools remain in place.

Conclusion

The reasons why the Federal government become involved in school education fall into three categories: fiscal federalism; political opportunism; and policy incrementalism. Historical accounts of Commonwealth intervention in education highlight the growing fiscal power of the Federal government *vis a vis* the States, following the introduction of uniform taxation in 1942. The implication of this argument is that its increased fiscal capacity gave the Federal government the will to intervene in policy areas that would otherwise have remained the sole responsibility of State governments. It is also argued that State governments were so starved of revenue after the Second World War that they were unable to meet their policy commitments without Federal assistance (Mathews 1972, Smart 1978, Tannock 1969: 8). Their fiscal dependence led State governments to

request direct Commonwealth assistance for school education in the 1960s to help meet the crippling burden of financing schools. While this argument might apply to other policy domains, it is less persuasive in regard to schooling.

Although State education systems were stretched to the limit to accommodate enrolments from the post-war baby boom during the 1950s and 1960s, their difficulties were caused more by material shortages than by financial incapacity. Lack of qualified teachers and the fact that schools could not be built quickly enough created a palpable sense of crisis in State education during the period. But when the State Education Ministers requested support from the Commonwealth for schools in 1963, the amount requested was only a fraction of their total outlays. Subsequently, when the Commonwealth assistance was not forthcoming, the States increased their own outlays on schooling. From the Commonwealth's perspective, increased fiscal power gave it no incentive to provide direct support for schooling, until political circumstances became amenable to exploitation on the issue of state aid to non-government schools.

The Commonwealth's intervention in school education was the product of political forces rather than a policy development process. The Federal government had sponsored education initiatives in schools under its Defence portfolio since 1911, but universities were structurally better placed than schools to attract Commonwealth funding. Although any attempt by the Federal government to become substantially involved in education always carried the risk of a High Court challenge, the likelihood that such a challenge would be successful receded after 1961 when the States asked the Commonwealth for financial assistance to schools. It was political pressure rather than policy concerns which led to the establishment of Commonwealth assistance for schools in 1963. This assistance was limited to a few Federal programs tied to specific policy goals until the late 1960s when Commonwealth and State governments were persuaded to implement permanent programs of recurrent assistance to non-government schools.

After the Karmel Committee initiated a major expansion of Commonwealth involvement, the Federal government attempted to conciliate the competing claims for schools funding by appointing representatives of pressure groups to the Schools Commission. But the establishment of the Schools Commission merely strengthened the power of education lobby groups who argued for an expanded Commonwealth role in schooling. Throughout the 1980s and 1990s, the power of the non-government schools lobby has been the primary influence over levels of funding and policy priorities for Commonwealth involvement in schooling. During this time the emphasis of Commonwealth funding has shifted from its original balance of targeted, capital and recurrent funding, distributed between government and non-government schools in proportions roughly approximate to their share of total enrolments. Today, eighty-two per cent of Commonwealth assistance is recurrent funding and sixty per cent of all Federal government funding is allocated to non-government schools. The absence of a coherent policy rationale for Commonwealth schools programs creates difficulties when we try to evaluate the effectiveness of the Federal government's involvement in schooling.

Chapter Three

The effectiveness of Commonwealth involvement in schooling

Introduction

This chapter will examine issues in performance monitoring relating to government involvement in school education. The first section will discuss why it is important to monitor government performance in school education provision and indicate how it can be done. The second section explores the way in which the Commonwealth government has determined its funding priorities and how the quality of performance information has influenced its processes of policy development. The third section discusses why it is so difficult to obtain information about school performance and suggests a way to improve the quality of information on schooling.

1 Measuring school performance

> Giving managers greater flexibility and freedom to manage resources is a necessary but insufficient condition for achieving improved performance. Autonomy alone is not enough. The counterpart of the devolution of authority is more stringent performance requirements and enhanced accountability (OECD 1995: 33).

In the past, parliaments could be assured of the performance of public sector agencies through monitoring detailed cash transactions. The maximum accountability required of bureaucrats was a timely and accurate account of how they spent resources on behalf of the government. The arrival of "new managerialism" in the public sector has given public sector managers greater autonomy over decision-making and increased power to determine program priorities (Considine and Painter 1995). In return for this autonomy, public sector managers are held responsible for the impact of their activities and the outcomes achieved. While recent reforms were designed to improve the efficiency of the public sector by "letting the managers manage", they have placed new demands on instruments of public accountability (Uhr 1998: 164-169). Today, being accountable for performance means being able to demonstrate that a government agency has been both efficient and effective in the allocation of public resources.

While in the private sector, the performance of any organisation can be assessed by the single indicator of profit or loss, it is more difficult to evaluate the performance of a government-run organisation (Painter 1988). The private sector's key performance measure of profit is of little use in a public sector context unless the agency is "corporatised" to the extent that it generates profit and loss. It is more difficult to measure the performance of an organisation if its outcomes cannot be readily quantified. While the private sector model of decentralised decision-making may have improved the efficiency of public sector management, it has created a need for new methods of monitoring agency performance.

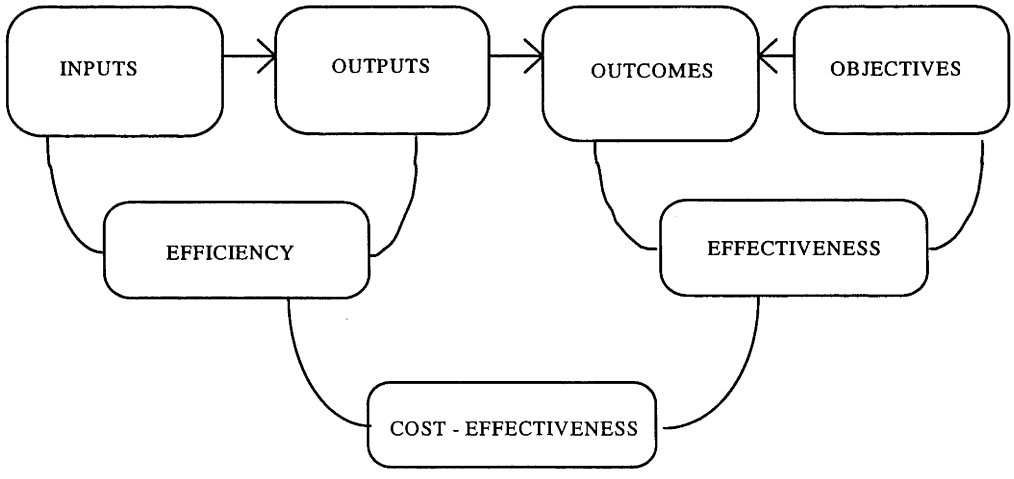
1.1 A model for measuring efficiency and effectiveness in schooling

The efficiency of an agency or program is measured by the relationship between its inputs and its outputs. In schooling, the most common efficiency indicator is average cost per student. However an accountability system which is based on financial data alone produces a distorted picture of a system's efficiency because it does not take into account the system's effectiveness. To measure only the efficiency of an agency is pointless unless we have some measures of how *effectively* the agency achieves its goals. This applies to evaluations of the performance of managers in both the public and private sector. As Drucker says,

> Effectiveness is the foundation of success – efficiency is a minimum condition for survival after success has been achieved. Efficiency is concerned with doing things right. Effectiveness is doing the right things. (Drucker 1974: 45)

On Drucker's reasoning, the measured efficiency of any industry or service provider is irrelevant if the industry is not providing the right services (ie. being effective). The most efficient school or system (ie. the one with the lowest cost per student) could well be the least effective in terms of service delivery.

Figure 3.1 An input-output model of production



Definitions

Inputs: resources used in the production process, usually expressed in terms of a monetary value.

Outputs: the product produced by a system or program.

Outcomes: the impact of the whole production process on the system's clients.

Performance indicator: information about the performance of an enterprise or system of management.

Efficiency indicator: the ratio of inputs to outputs in a production process, usually expressed in terms of a cost per unit of output (eg average cost per student). An *efficient* system is one which minimises the cost (input) per unit of output.

Effectiveness indicator: measures the extent of success in achieving the objectives of the system or program. An *effective* program is one which the program's outcomes fulfil the program's objectives.

Cost-Effectiveness: the unit cost of the program outcome.

In an industry like schooling, where effectiveness is reflected mainly in students' educational achievements, educational outcomes data provide the best indications of a school's effectiveness. To explore this relationship between inputs and outcomes, governments need to collect performance information in a systematic way based on a

model of the production of school education. The first step in developing a model of school education is to define the key elements of the education production process. As performance measures ultimately reflect the relationship between these elements (ie. the conversion of inputs, or resources into educational outcomes) the model must differentiate between the outputs and the outcomes of schooling. The model must also enable us to identify the many purposes of schooling which should then become the primary focus for indicator development.

The model in Figure 3.1 is adapted from a generic input-output model developed by the Federal Department of Finance for use in public sector performance evaluations (Department of Finance 1986). This modified input-output model is a useful starting point for modelling production in service industries such as education because it highlights the important relationship between outcomes and objectives in measuring system effectiveness. It also improves upon more simplistic input-output models by emphasising the primary importance of identifying system or program objectives, as a prerequisite to evaluating both the effectiveness and cost-effectiveness of a production process.

To begin to understand the education production function, we need data on educational inputs and on educational outcomes. But even when information about school effectiveness is available, it is very difficult to demonstrate the relationship between expenditure and outcomes because school education is not a simple production process (Winston 1994). Industries that resemble a simple production process exist to produce a particular commodity, like electricity, and the processes involved in producing the desired outcome are easily identified. The production of school education, on the other hand, has multiple objectives, multiple inputs and outputs and multiple outcomes. Moreover, the way in which education's many inputs (eg. teachers, classrooms, students etc.) work to produce educational outcomes, (ie. the education production function) remains the subject of considerable dispute (see Cohn and Geske 1990, Ch. 7). Nevertheless, to the extent that it is possible to identify the goals of schooling it is also possible to produce measures of school performance.

1. 2 The objectives of schooling and measures of school effectiveness

One lesson which has become clear from public sector experiments with performance evaluation is the importance of identifying clearly the objectives of a system or program, even those which appear to defy quantitative measurement, as a precursor to developing performance indicators (Oakes 1986). If a less than comprehensive set of system objectives is established, the resultant performance indicators (which, by definition, measure progress towards system objectives) will be flawed. Inadequate indicators, based on ill-defined policy goals are likely to cause confusion to both educational practitioners and policy-makers as well as having the potential to seriously distort the direction of policy development.

The difficulty in obtaining consensus on the fundamental purpose of school education provision is common to many areas of government policy, particularly in the social services. It is difficult to define clear objectives for most Government programs, given the political, legal and historical constraints within which public servants operate

(Alford 1991). The role of learning in our economy and society has always been the subject of theoretical debate (see Becker 1964, Maglen 1990, Stiglitz 1975, Sander and Schaeffer 1991) and such debate has influenced the direction and focus of public policy (Pusey 1991, Marginson 1993). Nevertheless, at an operational level, lack of agreement about theoretical issues does not prevent governments from implementing specific programs in order to achieve identified policy objectives. If governments are to render account for the way in which they carry out their responsibilities, their performance must be evaluated in terms of the extent to which they have achieved stated policy goals.

Differences of opinion tend to be about the relative emphasis given to one objective over another, rather than the legitimacy of the range of policy goals. For example, even those schools which place great store by academic achievement, also insist that the purpose of education is to develop well-rounded individuals capable of making a contribution to society. The view that schooling should serve a wide range of policy goals is reflected in Australia's first nationally agreed statement of objectives for schooling, endorsed by Australia's eight State and Territory Education Ministers in 1989. The "Common and Agreed National Goals for Schooling in Australia" (reproduced in Appendix 1) are a useful starting point for performance measurement because they encompass a broad range of educational objectives including both cognitive and non-cognitive outcomes.

As a broad statement designed to encompass all possible objectives for schooling, the National Goals are too unstructured to incorporate into an input-output model. It is, however, possible to summarise the goals into four main areas or "fields" to provide a basic structure for a performance indicators framework. Based on the national goals, government performance in school education provision should be measured in terms of progress towards the following objectives:

1. Acquisition of functional literacy and vocational skills
2. Acquisition of discipline-based ("academic") knowledge
3. Attainment of maturity, physical health, confidence and social skills
4. Shared values and an appreciation of Australian society, economy and culture.

Attempts to measure student outcomes in any of the four fields inevitably invites controversy, reflecting the range of opinions within the education community on the issue of education measurement. Such controversy is fuelled by the need to select a limited number of instruments to measure outcomes in each field.

In the field of "functional literacy", for example, there is widespread disagreement among experts over the best measure to assess literacy outcomes (Department of Employment, Education and Training 1991 Ch. 3, House of Representatives Standing Committee on Employment, Education and Training 1993 Ch. 4). However the absence of agreement on such issues has not prevented education authorities from conducting literacy surveys in Australia over recent decades (see Bourke and Keeves 1977, Bourke et al. 1981, Management Committee 1997, Wickert 1989). Due to methodological inconsistencies, the data produced by these surveys have not been useful for comparing literacy outcomes over time. The Australian Council for Educational Research (ACER)

conducts a longitudinal survey on behalf of the Commonwealth government which can be used by researchers to explore the relationship between education and employment outcomes (ACER 1997).

In 1996, the Federal government commissioned a National English Literacy Survey which is likely to be repeated annually. The Commonwealth is using the survey to develop national benchmarks for literacy and numeracy for students in primary and secondary schools. The benchmarks will provide base-line data against which schools, teachers and systems can assess the effectiveness of their programs (Management Committee 1997: iv). If the survey is conducted consistently over several years, it will provide longitudinal national data on literacy achievement in Australia. As it remains a sample survey, it will be of no use in monitoring individual students' performance.

Heated arguments also arise over the issue of assessing vocational skills, given the difficulties of definition and the extent to which some critics question whether these skills can be measured at all (Norris 1991). The task is compounded by the differences in the way in which the States provide vocational training in schools (Russell 1993). One approach to assessing the effectiveness of vocational courses would be to track the educational and employment outcomes of high school graduates. This requires data on student subject choice in the senior secondary years as part of surveys on transition rates from school to further education or employment (Lamb et al. 1995).

Data for measuring the acquisition of discipline-based knowledge (ie. Field 2) can be collected from the range of State-mandated testing programs that are currently implemented in Australian schools. All of the testing programs assess levels of student achievement in specific disciplines at various stages of schooling. However, they differ significantly from state to state in terms of content, methodology and the stage of schooling at which they are conducted (Lokan and Ford 1994). As these inconsistencies are unlikely to disappear, a better source of data for performance indicators is Year 12 results. All jurisdictions implement public assessment at Year 12 and the results can be used to monitor the acquisition of discipline-based knowledge. Given the existence of largely untapped data sources, it should be possible to aggregate data from these tests to develop useful performance measures in this field.

Educational psychologists have developed a range of instruments for assessing the aspects of personal development included in Field 3, however, the quality of the data is always affected by the method in which it is collected. Attempts to measure outcomes in the area of personal development cannot avoid becoming embroiled in controversies within the discipline of psychology over research methods and validation of results. Nevertheless, as the development of personal characteristics such as student self-esteem and social skills is accepted as a legitimate objective of schooling, these traits should be included in a performance indicators framework. Instruments such as the "Quality of School Life" survey (Epstein and McPartland 1976) and the Educational Outcomes Survey (NBEET 1995), which measure student attitudes to school, provide a model for developing indicators of students' personal development.

Assessing achievement in Field 4 is probably the most difficult of all, given the reluctance of any government to define acceptable "shared values" or desirable qualities

of citizenship. But political participation and preparation for citizenship is a goal against which the performance of educational systems should be measured (OECD 1973: 40). A Senate Committee inquiry into "Education for Active Citizenship" relied on quiz-type questions of the "Who is the Prime Minister?" variety to assess the extent to which Australian children appreciated Australia's political and social context (Senate Standing Committee on Employment, Education and Training 1989). The Federal government recently announced that it would fund a "citizenship" program in Australian schools based on an historical understanding of features of the Australian democratic tradition (Kemp 1997b). As the program will be pursued within a Key Learning Area of the agreed curriculum frameworks, desired student learning outcomes will be identified. In the absence of an explicit definition of a desirable outcome in the area of "values" , any data purporting to measure this are likely to be of limited policy relevance in the short term. Nevertheless, the inculcation of a certain set of values is deemed important enough to be identified by Federal and State governments as a policy objective of school education. Therefore school systems should at least attempt to understand how schools perform this role. Data for this indicator can be collected through sample surveys or focus group interviews.

The lack of definitive measures of the outcomes of schooling reinforce the need for caution in the selection and reporting of performance information. A key assumption is that no statistic can convey everything about schools' performance. The performance measures only provide an *indication* of where a system appears to be performing well or poorly and not a complete picture or *summation* of a school's performance. Unfortunately, the costs of monitoring and the difficulty of explaining school performance to the general public tend to lead to simple indicators and simplistic interpretations of them.

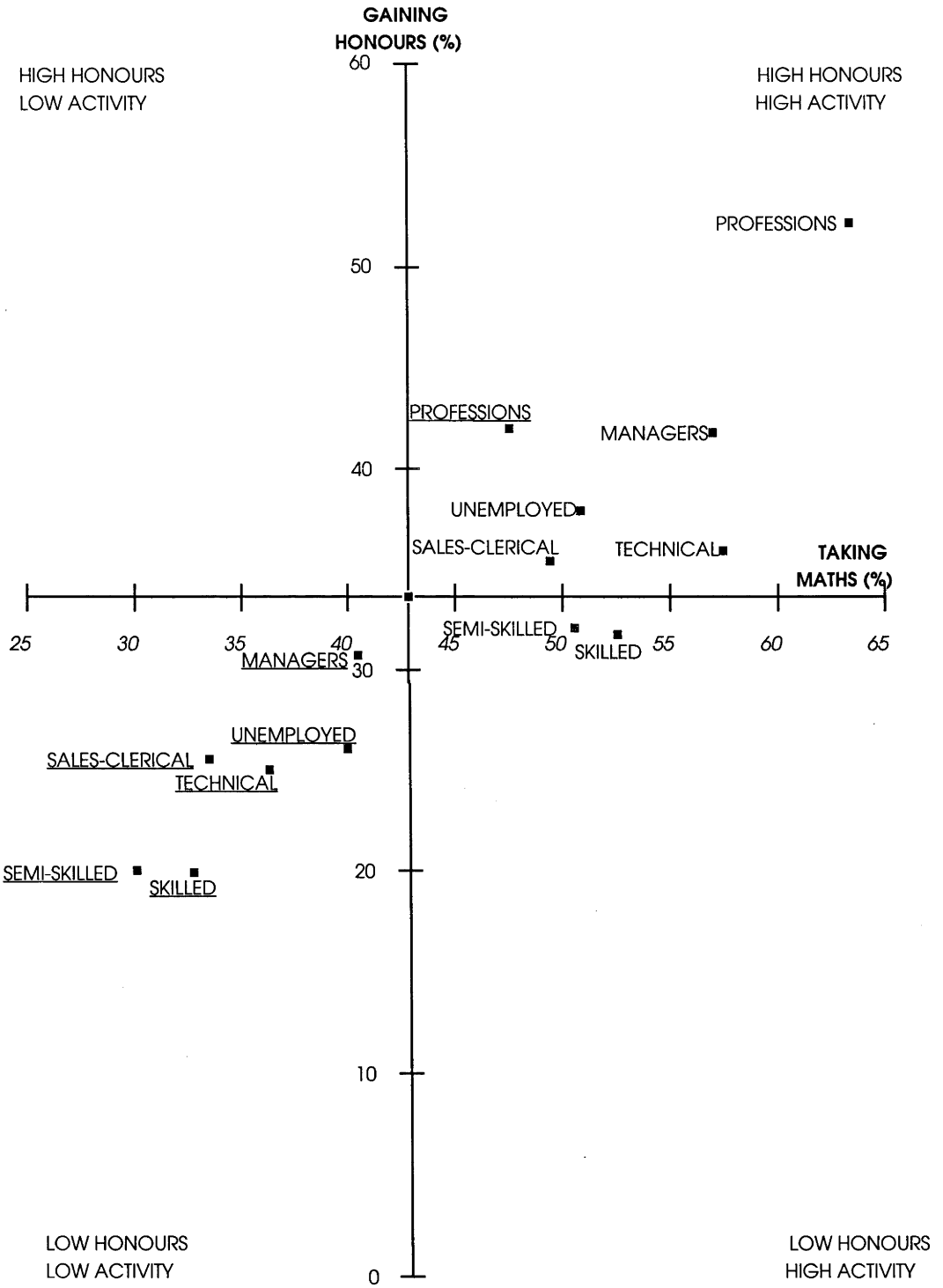
1.3 The influence of student background on educational outcomes

To obtain an accurate picture of school effectiveness, it is necessary to take into account one of the most significant "inputs" into the education production process – the prior educational endowment of the student. Research over a long period of time has established that the nature of this endowment is dictated largely by social background variables such as family income and parents' occupation (Cohn and Geske 1990 Ch. 7, Eckland 1964,1965, Sewell et al. 1957, Sewell and Shah 1967, Teese 1994). Studies of student achievement consistently demonstrate that the variable of social background, usually measured by a proxy index of socio-economic status (SES), is significantly correlated with students' educational performance.

Although the effect of family background on student achievement is well established, there is less agreement about the extent to which it influences educational achievement and the way in which schools can overcome its influence. Nevertheless in order to understand the "value added" by schools to student achievement, social background variables must be taken into account.

Figure 3. 2 Mathematics Enrolment Rates and Honours Rates by Student's Occupational Background and Gender, Victoria 1990

(Female values are underlined)



Source: Teese, R. "Evaluating School Systems: Provider versus Client Perspectives on Performance" in Schools Council, *Public Investment in School Education: Costs and Outcomes*, Canberra March 1994

It is important to incorporate family background characteristics into analyses of social indicators because they are factors over which government service providers have little control. When measuring school performance in any of the four policy fields identified above, students' social background is likely to be a significant influence on their educational outcomes. Whereas private schools and selective government schools can control their student intake, most government schools have no capacity to manipulate the social background of their student populations. As the aim of monitoring government performance is to assess the effectiveness with which schools use the resources *within their control* to produce good educational outcomes, schools serving students from different social backgrounds should not be judged by the same performance criteria.

For example, a school in the Western suburbs of Sydney which improves the participation and pass rates in mathematics of its students from a low base, would have added more value to its clients than a school in the Eastern suburbs which simply maintained the already high achievement rates of students from professional family backgrounds. Yet if social background factors are not taken into account in measuring student outcomes, the Eastern suburbs school would be judged more effective. Such a conclusion would be misleading both for public accountability purposes and for those using the indicators for policy development.

An example of student outcomes data disaggregated by background characteristics is reproduced in Figure 3.2. The plot illustrates two measures of educational outcomes in mathematics for students from different social backgrounds. First, it plots the proportion of Year 12 students from different social backgrounds taking mathematics as a subject in Year 12 (on the x axis). Second, it illustrates the relative educational success of the various social groups by measuring the proportion obtaining honours grades in the subject (y axis). The plot demonstrates that male students from professional families participate in maths at a much higher rate (63%) than females whose parents are semi-skilled (30%), and that such males earn honours grades at over double the rate (52%) of females from semi-skilled backgrounds (20%).

It is not necessary to understand how family background influences student performance in any of the four policy fields to acknowledge that socio-economic status is a variable which should be taken into account in a performance measurement framework. Experience with indicator development in other areas of social policy, such as health and employment reinforces the importance of using family background characteristics to identify sub-groups of the population to understand the impact of government policies (Murnane 1987, Wyatt 1994). In school education, by measuring educational outcomes for sub-groups of the population against any of the objectives, we can obtain a more valid indication of the amount of "value added" to the student by the school. Data for sub-groups of the population are therefore essential for making fair comparisons in relation to the performance of schools and the educational outcomes of individual students.

Acknowledging the influence of family background does not mean that all data sets must "control" for the student background variable. It is important, however, to ensure that we compare "like with like" when assessing the impact of different schools or

systems on similar client groups. While controlling for student background variables is one way to do this, population characteristics can also be represented in a regional reporting framework.

1.4 Reporting performance information

The process of defining performance indicators for schooling should not restrict the capacity of system authorities to run schools. Given the complexity of the education production process and the multiplicity of inputs and outcomes, it is important to exercise caution in the selection and publication of performance information. Simplifying education production to the extent necessary to produce indicators of outcomes runs the risk of ignoring significant areas of school performance and conveying misleading messages about what is important in schooling. While a few simple indicators may be sufficient for public accountability purposes, a much more complex set of statistics would be needed to inform the decision-making and policy development processes (Darling-Hammond 1994). Indicator systems should not be constructed for their own sake, but to meet the information needs of public sector managers and institutions of public accountability (OECD 1992: 12). In developing its system of international education indicators, the OECD emphasised that the role of any indicator system is to inform educational policy and improve the quality of schooling (OECD 1992: 10).

On the other hand, over-reliance on simple performance indicators as a basis for policy development can result in a narrow and instrumental approach to educational decision-making. Some education outcomes, such as cognitive skills are easier to quantify than others (eg. social skills), so there is a danger that policy makers will focus on the more accessible set of statistics. If financial decisions are made on the basis of such limited data, practitioners will receive a clear message about what is considered important in schooling and are likely to change their behaviour as a result. In the United States of America, this phenomenon is called "high-stakes testing " and it describes a situation where test score data is used as a basis for making policy and funding decisions affecting schools. In "high stakes" testing environments, educational practitioners are likely to distort their behaviour in order to meet the demands of the indicator, usually to the detriment of their real job. The most common distortion is to "teach to the test", or to drill students in test-taking skills, although in extreme cases, some students are not allowed to sit the test or cheating is encouraged to ensure that test results are high (Paris et al. 1991). Such "goal-displacement activity" tends to occur in any workplace where a limited range of performance indicators is used as a basis for decision-making, rather than as a starting point for investigation of performance issues (Winston 1994). Such activities are not only educationally unproductive, but they affect the validity of test results, and undermine their usefulness as indicators of performance.

"High stakes testing" is most likely to occur when a narrow statistical indicator measuring only cognitive aspects of school performance (ie. basic skills acquisition) assumes the unwarranted status of an evaluation tool. A survey of teachers in a high stakes testing environment in the United States revealed a widespread belief that the State-mandated Iowa Test of Basic Skills was "routinely inappropriately used to evaluate administrators, teachers, and schools with quite harmful effects" (Smith 1991).

Examples of the misuse of test results included abandoning curriculum packages and questioning the competence of teachers on the basis of one year's results, and making invalid comparisons between schools serving different client groups (Smith 1991).

To guard against the creation of a "high stakes" testing environment, the following principles should underpin any performance information system:

- effectiveness indicators are developed which reflect the wide spectrum of objectives for education, not just cognitive outcomes;

- indicators compare "like with like" by reporting performance information for different sub-groups of the population or by statistical regions; and

- any published material conveys the limitations of performance indicators for policy decisions and emphasises the need for qualitative investigations of policy issues which are raised by the statistics.

Following these guidelines will not always ensure that performance data are not misused, because the accountability requirements demanded by a number of stakeholders can conflict with the needs of system management (Corbett 1992: 191-196). In schooling, the most common conflict is caused by the demand for the publication of school-by-school comparisons of student outcomes data. In New South Wales, for example, the publication of HSC results by school is used by some parents to select secondary schools for their children. The publication of exam and test results by school without reference to student background can undermine the goal of monitoring school performance because it can misrepresent the performance (in "value-added" terms) of schools which cater for different student populations. The publication of academic results alone also ignores the contribution of outcomes in the non-cognitive domain which are equally important objectives for schools.

The pressure to publish school-by-school comparisons indicates the importance of disaggregated data in monitoring school performance. Systems could meet this demand better if they published academic results in the context of students' social background characteristics and included measures of the non-cognitive aspects of schooling. Performance information must be disaggregated to identify variations in the quality of service provision. Given the size of State education systems, it is impossible to detect any meaningful trends in data reported at the statewide level. When students' mean scores for the Basic Skills Test between 1990 and 1995 are published at a statewide level, the degree of variation over the period is never greater than two percentage points and there is no clear trend in the data (Review of Commonwealth/State Service Provision 1995: 241). Such highly aggregated data provides no information about any variability in the patterns of service provision and could conceal any significant differences in the quality of service provision. For example, it is possible that the slight overall improvement in the Statewide mean score for the Basic Skills Test could have occurred as a result of significant gains made by some students, while other students may have made no progress, or even fallen behind. The disaggregation of educational outcomes data is essential for examining the distributional effects of government policies and for identifying variations in the quality of service delivery.

There are many ways of reporting performance information and many levels at which educational outcomes data can be aggregated. In the development of school education indicators, there have to be trade-offs in determining the appropriate degree of disaggregation of data on student educational outcomes. If the publication of school level data is considered undesirable, educational outcomes can be reported at a slightly higher level of aggregation such as by region. This level of aggregation is sufficiently broad to protect the identity of individual schools, yet sufficiently differentiated to display degrees of variability in educational outcomes. In a regional reporting framework, student educational outcomes could be published together with the social and economic characteristics of the client population which are known to influence school performance. Reporting information by statistical regions also enables population characteristics to be reported together with data on educational outcomes, providing a richer information base for evaluating government performance[1]. Educational outcomes are currently reported at a regional level in Europe, Japan and the United States of America (see Statistical Office of the European Communities 1995, Ministere de l'Education Nationale 1995, Istituto Nazionale di Statistica 1993a, 1993b, Statistics Bureau, Management and Coordination Agency Japan 1996, US Department of Education 1991).

When educational outcomes are reported within regions which conform to the standard geographical classification employed by the Australian Bureau of Statistics, contextual data relating to the population characteristics of the region are readily available. This means that data on educational outcomes can be reported in the context of important explanatory variables that are known to influence educational outcomes such as levels of household income, educational attainment and unemployment.

In summary, disaggregating results to a regional level has the following advantages:

- the ability to interpret educational outcomes in the context of social and economic factors that are known to influence student performance
- the ability to compare the educational outcomes of regions which have similar population characteristics
- the capacity to monitor changes in educational outcomes on a consistent basis over time
- when significant change is observed in educational outcomes, the capacity to understand the extent to which the educational change is due to changes in the regional population

Across the public sector as a whole, a regional reporting framework would be useful for interpreting data across several social policy fields, such as health, education, employment, corrective services and community services, all of which have an impact on the quality of educational outcomes in schools. A regional reporting framework would therefore be a useful instrument for the Commonwealth to use in assessing school effectiveness on a consistent basis throughout Australia.

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[1]The standard geographical classification employed by the Australian Bureau of Statistics enables a range of social and economic indicators to be reported on a consistent basis by region.

2 Measuring the Federal government's performance in schooling

To the extent that national goals[2] for education require Federal involvement in schools funding, States should be accountable for reporting on how they pursue these objectives when in receipt of Commonwealth Specific Purpose Grants. The Federal government also needs this information to inform its own policy development process. However, as the Federal government does not run any programs within schools, the effectiveness of Commonwealth schools expenditure must be evaluated on the basis of information provided by the States and Territories and non-government schools.

2.1 The Karmel report and the Schools Commission

Prior to 1969, Federal policy objectives for schools funding were quite specific and the bulk of Federal funding was allocated for science laboratories, libraries, or secondary scholarships. In 1972, the Karmel Committee was asked for advice on how to implement the much broader policy objective of funding schools on the basis of "need". The Karmel Committee concluded that "beyond a basic minimum level, the needs of schools can only be considered in relation to the objectives set for them" (Karmel 1973: par 5.8). It identified four possible criteria for assessing educational need. They were the need for:

1. a minimum quantity and quality of resources in schools;
2. a particular level and kind of outcomes from schools;
3. resources of varying types and amounts having regard to their effectiveness in moving towards desired goals; and
4. recognising the extent of the cognitive, physical, social or economic disadvantages of individual pupils (Karmel 1973: par 5.9).

The Committee said that lack of adequate data ruled out the possibility of using the second and third criteria (ie. the outcomes measures) as a basis for funding schools, which left only criteria 1. and 4. (ie. the input measures). The Committee therefore concluded "it should make its needs assessments along two dimensions: inputs of resources to schools and school systems, and degree of disadvantage of groups of pupils in particular schools" (5.10). The policy objective was to bring all schools up to a uniform standard of education service, through providing differential levels of recurrent and capital assistance to all schools and additional (targeted) assistance to schools with special needs.

The Karmel report noted the inadequacy of this approach for defining needs.

> The Committee acknowledges the limitations of dealing with inputs of educational resources and ignoring outcomes. . . It has however, emphasised many of the wider issues which it expects will be pursued by the Schools Commission (Karmel 1973: par 5.11).

[2] As discussed in the previous chapter, the national policy objectives relate primarily to economic objectives such as full employment and industrial growth as well as the promotion of citizenship values at a national level.

This directive was not pursued by the Schools Commission that was established in the wake of the Karmel Report, even though many members of the Committee were appointed as Commissioners. The Commission never identified educational outcomes objectives that could be used to measure the effectiveness of the Commonwealth's expenditure on schools. Instead, the *means* by which the Commonwealth's goals were supposed to be achieved became its *end,* in that a "resources standard" (ie. the amount of money that schools needed) was the policy goal rather than any particular educational objectives.

The Karmel Committee set a resources target for government primary schools of a 40 per cent increase over 1970-71 funding levels by 1979. A resources target of 35 per cent was set for secondary schools (Karmel 1973: par 5.13 and 5.23) The resources target was reached two years early, due to continuing increases in expenditure by State and Territory governments. By 1979, the resources available to government primary schools had increased by 54 per cent in constant prices (Schools Commission 1981: par 4.10). The majority of non-government schools remained below the average resource levels of government schools due to a drop in the level of private contributions (see Appendix Two).

As the Karmel resources target for government schools was reached by 1979, one might assume that Commonwealth and State expenditure on government schools could have been capped (because all schools had reached the desirable resources standard). However the Schools Commission cited a study of the resources available to schools that found significant differences between schools in terms of class sizes and the availability of specialist teachers (Schools Commission 1981: 4.7). As the Karmel report had defined no policy objective other than a resources standard, the Commonwealth had no capacity to measure whether any educational policy goals had been achieved by its funding contribution over the decade, nor did it have any basis upon which to determine the schools' need for additional resources in the future. The only option available was to set a new resources target.

In 1981, the Schools Commission acknowledged, as the Karmel Committee had noted eight years earlier, that to focus on resources alone as a determinant of need was inadequate.

> There is no simple arithmetical relationship between the input of resources and particular outcomes. For example, a good teacher working with a large class may achieve better resources than a poor teacher with a small class, or badly organised schools may negate the most valiant efforts of competent teachers (Schools Commission 1981: 4.2).

Nevertheless, the Commission was not prepared to incorporate any educational criteria in its determination of resources targets. It proposed a new funding formula called a "basket of services" approach that was based on inputs such as class sizes and teaching conditions. The only change from previous methods was that the calculations were limited to the resources used within schools, rather than total systems costs and the Commission attempted to demonstrate that all schools did not require the same level of resources (Schools Commission 1981: 4.5).

The new funding formula involved the identification of three "baskets of services" to characterise different configurations of resources which schools might use. Each basket of services was costed out and averaged over the total number of students, to provide a level of per capita expenditure which was intended to make up a new resources target (Schools Commission 1981: 4.11 and Appendix II). Although the "basket of services" approach identified the different ways in which schools could organise their resources, the difference between the cost of each "basket" was less than 5 per cent (Schools Commission 1981: Appendix II). For primary schools, the baskets involved an 8-12 per cent increase in funding, while for secondary schools, the baskets were 5-9 per cent lower than existing per capita allocations (Schools Commission 1981: 4.23). On the basis of a weighted average combining both primary and secondary schools, the Commission recommended an increase in Commonwealth expenditure per student of 3 per cent over three years.

Although the components of the baskets were the real costs of staff salaries and associated conditions, the baskets were hypothetical configurations for the purpose of producing a new resources target. The configurations of resource-use had no policy rationale other than to support arguments for increases in expenditure and did not relate to any specific policy objectives. The weakness of a formula based on inputs alone was illustrated by the finding that secondary schools were over-resourced at a time when a national policy goal was to increase student participation rates in Year 12. The need to increase Year 12 retention rates and the associated issue of re-designing the senior secondary curriculum – which would involve considerable cost – were discussed at length in the Commission's report (Schools Commission 1981: 66-100). But as the input-based funding formula had no link to policy goals, the cost of increasing the Year 12 participation rate could not be taken into consideration in the Commission's funding advice.

Table 3.1 Increase in outlays per student in government schools over three decades (in constant prices)

	Increase in States and Territories expenditure	Increase in Commonwealth expenditure	Increase in total expenditure per student
1961-62 to 1971-72	66%	n.a	**66%**
1971-72 to 1981-82	54%	55%	**72%**
1981-82 to 1991-92	14%	28%	**15%**

Notes: The data exclude expenditure on preschools, and includes expenditure on special education, targeted programs and joint programs. Commonwealth expenditure on joint programs is attributed to government schools. The data are drawn from all Australian States excluding the Australian Capital Territory and the Northern Territory. Expenditure is in constant prices deflated by GNFP(e).

Sources: Commonwealth Budget Papers, ABS Cat. No. 4221.0 *Schools Australia*; ABS Cat. No. 5510.0 *Expenditure on Education , Australia*; ABS (1996) "Expenditure on Schools" Unpublished Data.

The "basket of services" approach was rejected by the Commonwealth government because it was too expensive. Nevertheless, the principle of averaging out desired levels

of inputs (eg. class sizes, teaching staff levels, release time, etc.) underpinned the (lower) resources standard eventually adopted by the Commonwealth. A target called the "community standard" provided modest increases in funding to government schools and differential increases in funding to non-government schools from 1985 to 1992. The eight-year funding plan assumed that if the States and Territories matched the Commonwealth's funding increases, all government schools would reach the Community Standard by 1992. In 1989, the Commonwealth decided that after 1992, it would cap its funding for government schools (ie. maintain grant levels in real terms) on the rationale that the resources target should have been reached if the States had maintained their level of contributions (Dawkins 1989). But the States had not matched the Commonwealth's funding increases in terms of percentage growth during the 1980s, as shown in Table 3.1. And as most non-government schools would still have been below the community standard by 1992, the Commonwealth promised continuing real increases to private schools in Categories 10 to 12 after 1992.

By ensuring that the Federal government's schools funding policies remained input-driven, the Schools Commission succeeded in obtaining increasing levels of Commonwealth assistance for all schools in the 1970s. However, the strategy broke down when the Federal government placed global limits on its spending and instructed the Schools Commission to identify policy priorities. The need to make choices between competing interests destroyed the fragile consensus between the members of the Schools Commission – all of whom represented stakeholders in competition for Commonwealth funding. In 1984, the Commission's government school representatives produced a dissenting report on funding issues. After the Commission was abolished in 1987, the government established a new set of advisory councils for each education sector under the National Board of Employment, Education and Training. The Councils of the National Board had no program responsibilities and were not directly involved in the budget process. They were instructed that if they provided advice containing any new spending proposals, they had to identify offsetting expenditure from existing programs.

In 1984, the Federal Minister for Education appointed a Quality of Education Review Committee (QERC) to examine the effectiveness of Commonwealth involvement in primary and secondary education. Chaired by Professor Peter Karmel, the Committee was asked to advise on ways to improve the efficiency of Commonwealth expenditure on school education with regard to strengthening the links between schooling and employment. The Committee comprised only five members, none of whom represented education interest groups[3]. The Committee's terms of reference focused on the need for schools to promote the achievement of basic skills, maintain high standards in Years 11 and 12 and improve educational opportunities for girls, in recognition of the role of education in Australia's international economic competitiveness (Karmel 1985).

The QERC report represented a major shift in emphasis from inputs to outcomes in its analysis of the impact of Commonwealth involvement in schooling. It made an attempt to assess the effects of the spending resulting from the 1973 Karmel report and carefully examined trends in enrolments and expenditure. It recommended the negotiation of

[3] In addition to the Chair, Peter Karmel, the Committee comprised Hugh Hudson, Peter Kirby, Barry McGaw and Helen Williams.

agreements between the Commonwealth and the States, the review of many targeted programs and the provision of detailed data on student attainment by all recipients of Commonwealth general recurrent funding. Its advice included the recommendation that:

> All specific purpose programs should operate on the basis of:
> - a small number of simply stated objectives;
> - a small number of pre-determined effectiveness indicators;
> - reporting arrangements which allow progress towards objectives to be noted;
> - the use of some funds for staff development; and
> - ongoing evaluation and adequate administrative support.
>
> (Karmel 1985: 203).

Although the QERC report's advice on monitoring effectiveness of expenditure was not taken up, in 1985 the Commonwealth implemented resource agreements with the States requiring them to report how they used the "betterment" component of their general recurrent grants (ie. the amount of the real increase they received in Commonwealth funding each year). The amount concerned was approximately $10 million per year – less than 2 per cent of the Commonwealth's total grant for government schools. In practice, it was impossible to distinguish the expenditure of Commonwealth grants from State-funded activities, but for several years the States reported how they spent this small component of their resources in pursuing Commonwealth priorities. In 1989, the Commonwealth dropped this requirement from its resource agreements when it asked the States and Territories to agree to participate in the *National Report on Schooling.*

2.2 Accountability for Commonwealth expenditure on schools

In theory, States and Territories should be able to account for the expenditure of Commonwealth resources to the Federal government. However, as Commonwealth resources are pooled with State-sourced funds to pay for schools run by the States, it is impossible for States to account for the Commonwealth portion of school education expenditure (ANAO 1995, Spedding 1993). Its lack of control over inputs increases the importance of the Commonwealth being able to monitor the outcomes of school education (SEETRC 1995).

The fact that Commonwealth and State resources are pooled also means that the Commonwealth cannot be too prescriptive about how its resources should be spent. As education remains the primary responsibility of State and Territory governments, the Federal government cannot be seen to be influencing how the States spend their own resources on schooling. As long as the State and Territory authorities provide some financial contribution towards meeting the same funding goal as the Federal government, it is impossible to separate the expenditure of Federal monies from State monies for accountability purposes. When making specific purpose payments under Section 96 of the Constitution, the Federal government can specify its policy objectives, but the States and Territories are responsible for implementation. The only alternative to using Section 96 of the Constitution would be for the Federal government to run its own programs for schools.

In 1946, the Federal government's potential to become a services provider in schools was enhanced by the passage of the "benefits to students" amendment to the Constitution. The "benefits to students" power gave the Federal government increased scope to intervene in education matters, but the Commonwealth has never exercised this power in a way that would threaten the States' role as the primary service provider. The amendment provided a Constitutional basis for the establishment of the Commonwealth Office of Education in 1948 and the Commonwealth Schools Commission in 1974, however it has never been used to fund schools on a direct basis (ie. without going through the States). It is difficult to predict the extent to which the Commonwealth could provide direct funding to schools under the "benefits to students" clause because the scope of the power has never been tested in the High Court (Birch 1975: 83). To date, the Commonwealth has chosen the safer route of funding schools under Section 96 of the Constitution, rather than risk an examination of the legitimacy of its involvement by the High Court.

In 1989, the Federal government sought and obtained the agreement of all States and Territories to produce an annual *National Report on Schooling*, to "inform the citizens of Australia about . . . the performance of our schools" (Australian Education Council 1989) and fulfil accountability requirements with respect to Commonwealth General Recurrent Grants for schools. By proposing the national report, the Federal government recognised the futility of expecting school systems to account for the proportion of their expenditure sourced from the Commonwealth. Instead it sought the States' agreement to produce a joint report on expenditure and outcomes for all schools in Australia. Non-government schools were also invited to participate in the national report. To obtain their agreement, the Commonwealth had to give the States responsibility for writing the report as well as a right of veto over any material published in it.

The *National Report on Schooling* has been produced every year since 1990, yet the quality of its performance information declines each year. The *National Report's* Statistical Annex is sixty-four pages long, and at least 75 per cent of its statistical tables convey information about costs, such as data on income and expenditure, staffing levels, student numbers and so on (AEC 1993). The most common expenditure indicator published by States and Territories is the input-output ratio of average cost per student (MCEETYA 1996: 36). This statistic provides no information about the distribution of resources to schools and students and encourages simplistic judgements to be made about the relative efficiency of the various education systems. Although comprehensive, the expenditure statistics are highly aggregated and convey little information about the distribution of resources within systems.

The only data in the *National Report* relating to system effectiveness are retention and participation statistics. Retention and participation statistics are limited indicators of effectiveness because they do not contain information about the quality of student learning. Nevertheless, because retention statistics reflect progress towards a specific national policy goal, they should be of some use in performance measurement. In the National Report, however, the retention and participation statistics for each State have been presented in a way that limits the range of comparisons which could be made between States' and Territories' performance in this area of policy. For example, a table comparing Year 12 completion rates for students of high and low socio-economic status

presents figures for Australia as a whole but does not include the rates for each group by State and Territory, even though it would have been necessary to compile State-level statistics in order to aggregate the national figures (AEC 1993, Table 11a). Other statistics in the report which relate to educational effectiveness are aggregated nationally to prevent State by State comparisons, such as data on the destinations of school leavers and the number and proportion of Year 12 students enrolled in tertiary-accredited subjects (AEC 1993, Tables 13, 14, 15).

Highly aggregated performance information such as that presented in the *National Report* invites simplistic interpretations that underplay the complexity of the education production function. When comparing average costs per student and average student outcomes data, it invites the conclusion that "the rapid increases in expenditures on schools of the past three decades have simply not been matched by measurable increases in student performance" (Hanushek 1994: 18).

For example, analysts have assumed that the higher level of average expenditure per student in some States and Territories reflects inefficiency in service delivery, rather than a superior quality of service (Clare and Johnston 1993, South Australian Commission of Audit 1994). On this assumption, savings of $700 million per year could be achieved if all States reduced their expenditure to the level of the lowest spending State – without having any effect on school quality.[4] When financial data are examined in isolation from information about school effectiveness, the obvious conclusion is that higher levels of expenditure by some systems reflect inefficiencies rather than superior performance. In the absence of data on outcomes, it can be assumed that expenditure reductions will not affect the quality of the service provided. Reports which have recommended reductions in school education expenditure to benchmark levels compare the costs of schooling between States and Territories without any accompanying data comparing educational outcomes (Clare and Johnston 1993, South Australian Commission of Audit 1994). The South Australian Commission of Audit used this approach in its review of State government finances which recommended reductions in schools expenditure (South Australian Commission of Audit 1994). After comparing South Australia's average student: teacher ratio with the national average, the Audit Commission recommended that 931 teachers should be shed from the South Australian education system, saving $40 million per annum (South Australian Commission of Audit 1994, Rec. 12.19). The report also noted that if South Australia's student: teacher ratio was reduced to the then New South Wales benchmark, 2000 teaching positions could be abolished in the interests of improved efficiency. (South Australian Commission of Audit 1994, Section 12.5)

Whereas a dearth of performance information benefited all education stakeholders in the high-spending days of the 1970s, the lack of data on outcomes has proved a liability for State education systems(in a climate of fiscal restraint). The financial statistics

[4] This calculation is derived from Tables 17 and 18 in the National Report on Schooling in Australia (MCEETYA 1996) and refers to per capita expenditure on government schools in the 1993-94 financial year. When Clare and Johnston estimated that savings of over $1.4 billion could be obtained if State governments were to adopt "the Australian lowest cost practice" for providing school education services (Clare and Johnston 1993: 64), they used "in-house" data which was possibly based on 1989-90 expenditure. However, on the basis of published data for 1989-90, savings of $900 million, not $1.4 billion would be achieved by benchmarking expenditure in that year (see AEC 1990: Tables 16 and 19).

produced by the States and Territories and published in the *National Report on Schooling* are the primary source of data used by efficiency audits to suggest that schools expenditure could be reduced to benchmark levels (Clare and Johnston 1993, South Australian Commission of Audit 1994). The States' reluctance to publish performance information has contributed to the suspicion that school systems are inefficient "monopoly providers" that would benefit from increased market competition (Scales 1993).

2.3 The review of Commonwealth/State service provision

In 1993, the Federal government attempted to pressure State governments to improve the quality of performance information by initiating a review of Commonwealth/State service provision in schooling under the auspices of the Council of Australian Governments (COAG). The Industry Commission was asked to define performance benchmarks for Australia's eight government education systems. The review was expected to produce a set of performance indicators that would enable comparisons to be drawn between Australia's eight education systems and thus establish benchmarks for best practice in system performance (Dawkins 1993)[5].

By making public comparisons between each State's performance on schooling, the review was expected to introduce an element of competition into Australian education that would drive down costs. Called "yardstick competition", this approach aimed to encourage greater efficiency among State education authorities by revealing their inefficiencies compared to other States (Scales 1993). The approach had been successfully applied to a previous review of Government Trading Enterprises which had compiled performance indicators for many State-owned utilities such as electricity generation, and water supply (Steering Committee on National Performance Monitoring of Government Trading Enterprises 1993). However it proved as difficult for the Industry Commission to obtain adequate performance information on schooling as it had in the *Annual National Report* project.

To undertake the review, the Industry Commission established Working Parties consisting of representatives of State and Territory agencies and the Commonwealth. The Chair of the Schools Working Party said that it would avoid the focus on inputs that had characterised recent public sector audits and said it would develop outcomes indicators from data on students achievement (Wilkins and Doyle 1995). However, in its early meetings, the Schools Working Party decided that it would not undertake any new work to produce a comparable set of statistics on educational outcomes throughout Australia. It decided that "the most productive course is to make use of the extensive work being undertaken already by the different jurisdictions rather than going for something completely different" (Wilkins and Doyle 1995).

[5]Benchmarking refers to a company's examination of the costs, productivity and organisational features of more successful rival companies in order to define principles of best practice which can be used to improve its own performance (Winston 1994). In the public sector, benchmarking is a mechanism through which governments can evaluate the efficiency of State-run monopolies by making comparisons between the performance of similar organisations (Scales 1993).

Although each State and Territory had its own data on educational outcomes – mostly derived from tests of Basic Skills in Years 3 and Years 5 or 6 – the data sets were not comparable between jurisdictions. In 1994, consultants commissioned by DEET to ascertain the extent of literacy difficulties in Australian schools summarised the problems of obtaining nationally comparable data on educational outcomes from existing sources:

> any attempt to present firm conclusions about literacy levels in Australia is hampered by several factors:
>
> - data are not collected annually in all States and Territories;
> - where data are collected, different Year levels are studied;
> - the instruments used differ greatly in nature; they include for example commercially produced standardised tests, specially designed tests and teacher judgements using rating scales;
> - the operational definition of literacy differs from one study to another, with consequent differences in what is judged to be the minimum satisfactory level of literacy;
> - the basis for deeming students to be at risk differs from one study to another;
> - sampling methodology differs; some studies use structured random samples, in others randomness is less evident; some samples are sufficiently large to enable performance of sub-groups to be reported reliably; in other cases this is not so;
> - not all results of studies are publicly available.
>
> (Hill and Russell 1994)

In spite of the lack of comparability, the Working Party set about "examining the use of various statistical techniques and moderating processes in order to establish equivalence between tests" (Wilkins and Doyle 1995: 30). The Chair of the Working Party also claimed it would collect time series data from each State to compare the changes within jurisdictions over time. "Some of the most valuable findings may come from not trying too hard to compare NSW with Victoria and Queensland etc. at least not initially, but in plotting the changes in performance over time in each separate State" (Wilkins and Doyle 1995: 31).

After two years of deliberation, the Working Party produced a report that concluded, "no nationally comparable data on student learning outcomes are available" (Steering Committee for the Review of Commonwealth/State Service Provision 1995: 199). From the data provided by State and Territory authorities, the Working Party was only able to draw "some limited conclusions" along the lines that "generally, the available information suggests that there has not been any marked improvement or deterioration in student performance over the last few years" (Steering Committee for the Review of Commonwealth/State Service Provision 1995: 199). The Working Party's attempts to obtain "equivalence" between State and Territory outcomes data using statistical techniques had not worked. The report concluded that the only way to obtain nationally comparable data was by "embedding common items in existing State and Territory tests or by administering tests to a common sample of students" (Steering Committee for the Review of Commonwealth/State Service Provision 1995: 200).

In two years, the Industry Commission review did not produce any new data, and its report relied upon published information from the *National Report on Schooling* and the Basic Skills Tests administered by States and Territories. Because none of this information could be used to compare the effectiveness of each system's expenditure, the Inquiry was forced to conclude there was no way of judging the relative performance between jurisdictions. The suspicion that higher levels of expenditure in some States reflected inefficiency in service provision remained unchallenged. In response to the industry Commission review, the Federal government made its first tentative steps to initiate a National Literacy Survey of Australian schools.

2.4 National English literacy survey

In 1993, a House of Representatives Standing Committee on Employment, Education and Training, chaired by Mary Crawford MP, produced a report which stated that "10 to 20 per cent of children finish primary school with literacy problems" (HRSCEET, 1993 p.v). While no quantitative evidence was provided to substantiate this claim, and the Committee admitted, "the actual numbers of children with such problems are not known (HRSCEET, 1993, p.v), the report fuelled uncertainty about the effectiveness of Australian schooling. The lack of reliable information about literacy levels in Australian schools hampered the Federal government's capacity to respond to the report.

In its May 1994 White Paper, *Working Nation,* the Federal government announced that it would provide $3 million to conduct a survey of literacy levels in schools in 1996. The survey aimed to collect "reliable national data on English literacy levels of school students at three significant stages in their schooling (for example, ages 7, 9 and 13). To oversee the project, the Commonwealth established a Steering Committee of stakeholders consisting of teacher unions, parents' organisations, professional literacy associations, the business sector, non-government school authorities and State and Territory governments to oversee the project (DEET 1996). The Steering Committee decided to undertake a national sample survey in the second half of 1996 using labour-intensive performance assessment techniques. It also decided to limit the survey to Years 3 and 5 of schooling due to the cost of the testing methodology and the lack of comparability between curricula in the secondary years.

In designing the National Literacy Survey, the need for universal, national indicators of school performance was soon replaced by concerns about maximising the validity of the results through labour-intensive classroom assessments. In any large-scale testing program, the benefits of detailed performance assessment at the classroom level must be weighed against the higher cost (Stecher and Klein 1997). Although in-depth assessments examine higher order thinking skills, such assessments have only limited value as performance indicators because they cannot be administered cost-effectively to all students. As the success of the National literacy survey was dependent on the participation of stakeholders – particularly school teachers – discussions over the type of assessment instruments to be used took precedence over the issue of monitoring system-wide performance on a consistent basis. When the Liberal/National Party coalition gained office in March 1996, work on the National Literacy Survey was suspended temporarily.

The new Commonwealth Minister for Schools, Dr David Kemp, revised the process for undertaking the National Literacy Survey to include the setting of national literacy and numeracy benchmarks for school performance. In 1997, the results of the Survey provided a detailed picture of literacy achievement, particularly at the primary school level (Management Committee 1997). On the basis of a separate analysis of the survey results, the Federal Minister issued a press statement claiming that about a third of primary school children could not read or write at an adequate standard. He demanded a national co-operative effort to raise standards of literacy achievement (Kemp 1997c).

The National Literacy survey will be a useful accountability instrument in terms of reporting on the broad objectives of Australian education, and should provide useful information on changes in literacy levels over time. But because the survey is a sample only, it is of limited use in understanding the *distribution* of literacy problems between schools and within sub-groups of the population. Knowledge of the specific location of literacy problems is crucial both for performance monitoring and to inform policy development. Where literacy problems exist in Australian schools, they are most likely to be concentrated within individual schools or in particular sections of the community (HRSCEET, 1993, pars. 1.16 & 1.17). Such data can only be collected by a census of all students. State and Territory governments may have access to such data from their own tests of basic skills. The Commonwealth's use of a sample survey, rather than a universal test does not shed any light on this issue. It would have been very expensive for the Federal government to administer a national census of literacy achievement. Instead, it could have encouraged the States and Territories to administer a common basic skills test. This would have provided nationally consistent data on the distribution of literacy achievement throughout Australian schools and would have provided useful information on the distribution of achievement to policy makers at both levels of government. States could still have included State-specific items in a uniform national testing instrument. A more efficient use of expenditure on basic skills tests would release resources for measuring student outcomes in the non-cognitive domain. Although the social and emotional aspects of education have been recognised as essential parts of schooling, this policy goal continues to be ignored by governments when collecting data on school performance.

3 Improving performance data for Australian schooling

The Commonwealth allocates nearly $3.6 billion annually to schooling, but as the Industry Commission has concluded, there is no information on how efficiently or effectively these resources are used by State and Territory Education Departments (Scales 1997). The barriers to collecting useful performance information on schooling appear to be as old as public education itself.

> By 1900 the annual reports issued by the Departments of Education were so edited and expurgated that neither the Minister, whose reports they were supposed to be, nor anyone else had much chance of discovering the truth about the condition of public education (Austin 1961: 256).

State governments have been well-placed to resist Commonwealth attempts to improve the quality of performance information about schooling because they have controlled

access to data on outcomes, and have dominated national Committees to examine school performance. The following discussion examines some of the barriers to national monitoring of school performance and explores a possible way to overcome them.

3.1 The complexity of the education production function

The production of school education is not simple, and this could account for the difficulty in obtaining data on school effectiveness. Australian schooling, like most areas of social policy, serves a complex set of policy objectives, many of which appear contradictory, or overlap with other government services. Nevertheless, over the past thirty years, performance measures have been developed in many areas of social policy to monitor the efficiency and effectiveness of government expenditure (Wyatt 1994). Experiments in areas such as health, recreation and employment, have reinforced the importance of linking indicator development to specific policy objectives (Oakes 1986, Murnane 1987).

Although the education production function is complex, we can learn more about it by improving the quality of information on student outcomes. Our understanding should improve as we collect and use the data. One of the oldest social policy indicators, the unemployment rate, was initially a simple indicator of limited use. Early unemployment data were reported for the nation as a whole, but over time, as governments needed to monitor unemployment levels for policy purposes, the information was disaggregated to smaller geographical units (Murnane 1987). Australia's monthly unemployment data are now disaggregated to the level of Statistical Local Areas enabling governments to monitor unemployment closely and target their policy responses. Murnane concludes that the problems in improving economic indicators and education indicators are similar:

> First, just as it has been difficult to develop meaningful indicators of student achievement, it has been extremely difficult to develop indicators that capture critical labour market concepts. Indicators are always no better that proxies for the outcomes of concern. Second, real progress has been made in improving indicators of educational outcomes and labour force outcomes. This progress has dramatically increased our understanding of the performance of the educational system and the economy. It has also raised new questions, and highlighted deficiencies in existing indicators. These will continue to be the consequences of new and improved indicators (Murnane 1987: 105).

Acknowledging the complexity of the education production function should not imply that the government's performance cannot be measured. Performance measurement should be monitored in the context of the full range of policy objectives, and we should never assume that indicators represent a definitive measure of performance. It is only by commencing a process of systematic performance measurement that our understanding of the education production function will improve and better indicators will be produced.

3.2 Separating process from outcomes

In spite of the emphasis placed on effectiveness indicators by government authorities, developing valid measures of program effectiveness is a recurring difficulty for most government agencies (Clark 1994). Although decisions made in the Federal government's budgetary process are supposed to be informed by program evaluation, performance information is not used systematically in the budget process by any Commonwealth Department (Di Francesco 1998). A review by the Department of Finance of the quality of performance information provided by Federal Government Departments observed that "for all types of program, outputs rather than outcomes are reported, reflecting a continuing preponderance of process-oriented objectives". (MAB-MIAC Task Force 1992: 353). A possible cause of this deficiency is the assumption that quantitative information is more valid than qualitative assessments of program or system performance – but this should not stand in the way of performance reporting. As a parliamentary committee pointed out,

> The performance of many programs can only be measured in subjective, qualitative terms. The Committee presumes that all program managers must have some notion of whether they are doing well or badly, some standard by which they can say they are doing the job they have set out to do as reflected in the objectives of their particular programs. All that the Parliament requires is that these sorts of measures should be set down so that sensible judgements can be made about whether programs are meeting their objectives (Senate Estimates Committee E, 1989, p.2 cited in MAB-MIAC Task Force 1992)

The poor quality of school performance indicators in Australia may be due to a lack of appreciation of the role of performance measurement by school and system administrators – at both the State and Federal level. The prevalence of teachers in education bureaucracies has meant that the fields of educational administration and educational evaluation have – since their inception in the early twentieth century – focused on what happens within schools, rather than the performance of school systems. The bulk of educational research in Australia focuses primarily on what happens within the classroom, or within the school. "Education planning and evaluation approaches appear to address only part of the education effectiveness equation, to the exclusion of other, potentially relevant factors" (Fasano 1994: 72). Fasano observes that the influence of new economic, social and political perspectives since the 1950s has made little impression on the narrowness of administration and evaluation in education. The effect of this "school focus" of indicator systems is to "ignore the possibly sizeable contribution, positive and negative, of the education bureaucracy, not only to the effectiveness of the education system as a whole, but to the effectiveness of the schools themselves" (Fasano 1994: 73).

While a "school focus" is useful in most aspects of schooling, a different perspective is needed to develop system-wide measures of school performance. "When education is considered as a public sector organisation like any other, this includes both its bureaucracy and its delivery points, the schools" (Fasano 1994: 67). To develop good performance indicators in education, it is necessary to measure the performance of schools within a common framework. While there may be administrative efficiencies in devolving management responsibility to the school level, such developments increase

the need for governments to collect adequate information on school effectiveness. Regardless of how autonomous a school is, the performance of all schools must be measured on a system-wide basis. A "school focused" ethos among State education bureaucrats could impede the development of a system-wide perspective in performance measurement for schooling.

3.3 Eliminating the "stakeholder effect"

Our understanding of the education production function is impeded both by the lack of information on the inputs and outcomes of schooling in Australia and the way in which the data are presented. State and Territory governments have consistently resisted initiatives to measure educational outcomes in a way that would produce comparisons over time and between educational systems. They also refuse to provide information on resource allocations in a way that would enable links to be made between expenditure and educational outcomes. Incomplete reporting of performance information is so familiar to government auditors in all policy domains that one commentator has called for a strict regulatory framework governing the reporting of performance information for public accountability (Clark 1994). However, given the ease with which statistics are manipulated, such a framework is unlikely to eliminate all the possible loopholes likely to be employed when bureaucratic stakeholders have the power to obstruct the information-gathering process.

The main stumbling block to obtaining performance information through cooperative mechanisms, such as the Schools Commission, the *National Report on Schooling* and the Review of Government Service Provision, is the power of stakeholders to obstruct the information gathering process. The "stakeholder effect" is where government officials are reluctant to provide information which may expose areas of poor performance, particularly if funding decisions are likely to be made on the basis of the information provided (Murnane 1987). The States and Territories have the right of veto over any information about their own system published in the *National Report on Schooling,* in addition to providing most of the data reproduced in it. The Report therefore presents glowing accounts of every State and Territory's achievements, but contains very little data on educational outcomes, and no data that could be construed as critical of a system's performance.

The power of stakeholders to influence the direction of Federal expenditure without being accountable for any specified education outcomes has been apparent since the beginning of Federal government involvement in schooling. Keeping Commonwealth policy focussed on inputs suited the stakeholders that were represented on the Australian Schools Commission. Because most of the Commissioners represented school systems that received Commonwealth funding, they had no interest in developing policy objectives nor in identifying outcomes against which their performance could be assessed. The appeal of a resources target was simple – it could always be moved upwards. An educational standard, on the other hand, might suggest at some stage that schools were adequately resourced. If the Commonwealth had no data on educational outcomes, it had no capacity to question the repeated claims of its Schools Commissioners that schools were under-resourced.

It is unrealistic for governments to expect stakeholders, whether they be public servants or grant recipients, to produce information that is critical of their own performance. When a funding agency asks for performance information from a recipient body, it does not appreciate the conflict between the need for public accountability and the stakeholders' loyalty to their organisation. As no State official would be thanked for providing critical performance information to the Federal government, it seems absurd to expect State officials to perform a function that so clearly conflicts with their employer's interests. If the quality of accountability information provided to the Commonwealth is to improve, the Federal government would need to obtain the information in a way that does not create a conflict of interest for stakeholders. The only way to improve the quality of performance information in a Federal system, is to remove the process from negotiation between the Commonwealth and the States.

3.4 Establishing an independent reporting mechanism

In theory, improving accountability for Commonwealth expenditure on schools should not be particularly difficult. There is an agreed set of national goals for schools that could act as a framework for reporting educational outcomes. Although the Federal government cannot dictate how States and Territories spend their own resources, it does have the power to request information from States and Territories about the effectiveness of their school systems in return for the payment of Federal grants under Section 96 of the Constitution.

When grants are paid to the States under Section 96, the States and the Commonwealth negotiate a formal annual agreement about how the resources should be spent. A "resource agreement" is the contract that authorises the payment of specific purpose grants from the Commonwealth to the States. Resource Agreements are simply a letter from the Commonwealth dictating the terms of the grant and a letter from the State minister agreeing to those terms. The agreements are negotiated annually between the Commonwealth Minister and State and Territory education ministers as a prerequisite for receiving Commonwealth specific purpose payments for schools. In its letter the Commonwealth Minister defines the Federal government's educational objectives and seeks the agreement of the States and Territories to allocate the Commonwealth's resources towards meeting its goals. It would be quite feasible for the Commonwealth to request that the States and Territories provide information to the Commonwealth under the terms of annual resource agreements. However, for many years, the only accountability information requested was an annual statement from an auditor that the grant had been spent on the purpose for which it was appropriated[6]. More recently, the Federal government has requested the States' agreement to participate in the *National Report on Schooling* as its accountability requirement.

In 1995, a report from the Commonwealth Auditor-General recommended changes to the way in which resource agreements were developed to include the specification of performance targets and the imposition of sanctions if the targets were not met[7].

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[6] An investigation by the Commonwealth Auditor-General in 1992 found that even these statements were often not provided by States and Territories (Spedding 1993).

[7] The Commonwealth Auditor-General's office began to take an increased interest in the efficiency of Commonwealth expenditure in the early 1990s, and found that it was prevented from conducting

Recognising that the States could not be expected to account for the allocation of resources, the report argued that they should be held to account for their achievements against agreed policy objectives. The Auditor-General recommended that all resource agreements covering Commonwealth Specific Purpose Payments to the States should:

- set out the purpose of a program's existence and the objectives to be pursued;
- specify performance indicators that are directly linked to the objectives;
- document agreed performance targets;
- clearly disclose the form of penalties or sanctions to be applied where there is non-compliance with the agreement; clearly disclose the form of penalties or sanctions to be applied where program targets are not met;
- include a graduated range of sanctions; and
- include arrangements, where applicable, for recognising all involved parties from each tier of government in application documentation, media releases, official openings, signs and plaques and other program publicity (ANAO 1995: xvi).

The Auditor-General recognised that the Commonwealth has limited scope to pursue instrumental educational objectives when making grants under Section 96. His report therefore placed a high priority on the provision of performance information that would enable the Commonwealth to engage in an accountability dialogue with State and Territory governments on education issues.

Even if the Commonwealth exercised its legal powers to demand performance information from the States and Territories, the quality of any information provided would always be poor, due to the "stakeholder effect". The only way to overcome the "stakeholder effect" is to remove the participation of stakeholders in the data collection process. To achieve nationally consistent information of a high quality, the data should be collected by a third party – such as a statutory authority or an independent agency protected from direct stakeholder influence. Comprehensive school performance data is collected by an autonomous agency in the United States of America and some lessons can be learned from their experience.

Safeguarding the independence of the agency and granting it powers of access to schools would be the first step to improving the quality of performance data. In America, the productivity of the National Center for Education Statistics has been undermined by the need to obtain the agreement of State and local education authorities before initiating surveys in schools, which has often led to below standard response rates (Levine 1986: 16-17). The lack of concern about this and other technical problems among Center staff has raised questions about the staff's motivation and technical competence (Levine 1986: 45). Murnane (1987: 114) suggests that skilled statisticians would quickly tire of being involved in political processes that impeded their work, and that this may be why the Center has had difficulty in attracting and retaining skilled staff. One way to ensure that a reporting agency is free from political and bureaucratic obstruction is to obtain the prior support of State and Territory governments. Once agreement has been obtained on

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efficiency audits of this expenditure of specific purpose payments under the provisions of the *Audit Act 1901* (ANAO 1993).

the broad direction of the agency's work and on the way in which its results will be published, the agency should be free to pursue its research interests.

A protocol which guaranteed the co-operation of schools and systems would remove the need for consultation with State and Territory education authorities and other stakeholders which can impose costly delays on the administration of surveys. If the protocol also restricted the identification of schools and systems in published reports, it should safeguard most concerns of stakeholders about the mis-reporting of performance information. No government should have a right of veto over the publication of performance information. A model for such an agency exists in the Australian Council for Educational Research (ACER) which was established with a grant from the Carnegie corporation in 1930. The State and Territory education systems and the Commonwealth contribute a share of the Council's base grant and ACER undertakes additional work on a consultancy basis. ACER is governed by a Board of Directors consisting of the States and Territories and research interests, and its day-to-day operations are conducted independently of Commonwealth or State governments. An existing agency, like the Australian Bureau of Statistics could also perform the role of an independent monitoring agency over educational outcomes, provided it operated under a protocol that allowed it access to all Australian schools.

To end its fruitless quest for performance information from States and Territories, the Commonwealth could seek their consent to commission an independent agency to monitor school performance. If necessary, their agreement to co-operate could be sought as a condition of Commonwealth funding. The agency would be required to operate under agreed guidelines, and States and Territories would be represented – with research interests – on its governing board. However, no school or system would be able to refuse to participate in the agency's work and systems would have no right of veto over the type of performance information collected. The independent agency would have a monitoring role only and its work would be confined to providing information for public accountability purposes. Decisions made on the basis of the information, including action to remedy poor performance, would remain the responsibility of State and Territory governments and the Commonwealth.

Conclusion

In its accountability arrangements for Commonwealth expenditure on schools, the Federal government relies heavily on the cooperation of State and Territory governments and non-government school authorities. As these stakeholders are reluctant to produce data that might reflect adversely on their performance, there is limited information on the effectiveness of Australian schooling. A focus on expenditure has served the interests of stakeholders in times of funding growth, but it has proved counter-productive in times of budgetary restraint. The lack of information on school effectiveness has enabled auditors to conclude that school systems with above-average levels of expenditure are inefficient because States and Territories are unable to demonstrate the link between expenditure on schooling and education outcomes. Without the establishment of an independent monitoring and reporting mechanism, the quality of the performance information collected on Australian schools is unlikely to improve.

As the Commonwealth's funding priorities have been dictated by information on inputs, it has not been possible to monitor the effectiveness of Federal government involvement in terms of educational outcomes. The main structural impact of Commonwealth schools funding has been growth in the number of non-government schools. The main recipient of Federal funding is now the private school sector. The implications of this development for school education policy in Australia will be explored in the next chapter.

Chapter Four

The impact of government funding for private schools

Introduction

When the Federal government introduced recurrent funding for non-government schools in 1969, it aimed to arrest the decline in private school enrolments through improving the quality of education services (Marginson 1993: 208). The provision of government subsidies to private schools succeeded in improving their quality relative to government schools. The Commonwealth's inability to monitor the outcomes of its funding programs makes it difficult to judge changes in the quality of public and private schools resulting from Federal involvement. It is only possible to compare the quality of the public and private school sectors in relation to each other (Marginson 1997: 158).

This chapter will assess the impact of Federal funding for private schools in Australia. It summarises the history of private schools' funding and then discusses the extent to which the government's fiscal policy goals have been achieved. The provision of subsidies to non-government schools has not been successful in reducing the government's funding burden for schooling. The third section explores issues surrounding the relative quality of government and non-government schools and, within the limitations of the data, assesses the impact of government funding on school quality. The final section analyses the dimensions of competition in school education and the extent to which government funding influences the competitive environment for schools.

1 Government support for private schools in Australia

Late in the last century, State governments assumed control of education provision in order to ensure mass participation in education to a minimum standard of achievement. In the 1960s, State governments – with the assistance of the Federal government – restored funding to non-government schools. Although this policy may have reduced the cost of education provision in the short term, it had implications for the standards of education provision in both sectors.

1.1 The origins of funding for non-government schools

Following the occupation of New South Wales in 1788, Churches fought hard to maintain their control over schooling provision in Australia, resisting attempts by colonial governments to enter the field (Austin 1961). Eventually, as sectarian conflict undermined the Churches' common interests, and the rapid increase in population stretched their resources, Australian governments were able to take control of mass education provision in the 1870s. "Owing to rivalry between the various interests, to overlapping and to failure to provide adequate schools in outlying areas, it was gradually

realised that the State itself would have to assume responsibility for the provision of education for the mass of the people" (Cunningham et al. 1939:15).

Between 1870 and 1900, all Australia's colonial governments established education systems that were "free, secular and compulsory", and state aid to non-government schools was withdrawn. Several factors led to the complete withdrawal of grants to private schools. The liberals and Protestants who dominated colonial government feared the growing power of an anti-liberal Catholic church whose members reached close to one-third of the Australian population by 1870 and which had begun to establish a system of Catholic schools independent of government control. (Austin 1961: 207-212). Austin comments that the "long-term influence of agnosticism, voluntaryism and liberalism helped to produce the state of mind which found this 'secular' legislation acceptable (1961:173). The introduction of the "free, secular and compulsory" Education Acts was not designed to drive all religion out of schooling. In New South Wales and Western Australia, schools were still allowed to provide non-sectarian religious teaching within their curriculum and in all States, up to one hour per day could be devoted to voluntary religious education by the various denominations (Austin 1961: 172-175).

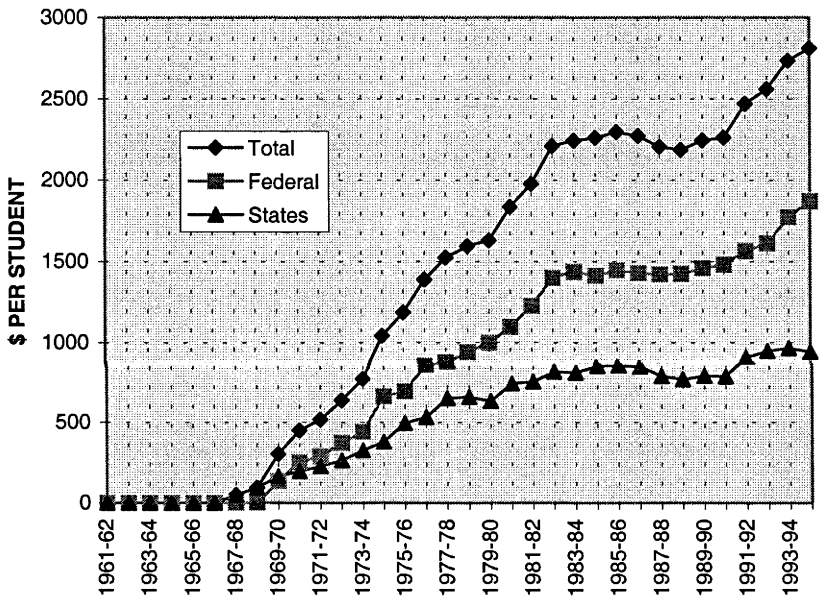
After the cessation of government funding in the 1870s, many non-government schools stayed open and the Australian private school sector remained relatively large in its size and scale (Marginson 1993: 206)[1]. Most of the non-government schools were Roman Catholic. The Protestant Churches reduced their services to a small group of socially and academically selective schools focussed on secondary education while the Catholic Church remained a provider of mass education at the primary level. By decentralising its schools to Diocesan control and utilising the labour of religious orders, the Catholic Church managed to maintain a large network of schools for most of the next hundred years without direct government assistance (Austin 1961: 210-211). In 1965, when twenty-four per cent of children were enrolled in private schools, eighty-two per cent of these students were in Catholic schools (ABS Cat. No. 4221.0).

Maintaining a large scale, low fee school system dependent on private resources became a serious burden for the Catholic parishes after the Second World War. By the 1960s, the effect of the post-war baby boom, increasing rates of secondary school participation and a decline in the educational contribution of religious orders meant that most Catholic non-government schools were struggling to provide education services to the standard of government schools (Smart 1978, Praetz 1982). Non-government schools received various types of indirect support from governments in the form of transport subsidies, interest rate subsidies, scholarships and bursaries, exemptions from rates and payroll tax, textbook allowances, discounts on library and school supplies, and income tax concessions for school fees. But by the 1960s, indirect subsidies were insufficient to alleviate the funding problems in Catholic schools and the Catholic sector began to lose enrolment share to the government system. The Catholic sector's share of total enrolments declined from 19.5 per cent in 1965 to 17 per cent in 1973.

[1] In the United States of America, the private sector's enrolment share has remained under 15 per cent, in the United Kingdom and Canada it is less than 10 per cent, whereas in Australia, it has always hovered around 20 per cent (UNESCO 1989).

The post-war school participation boom also placed strains on the government school system. Traditionally, a disproportionate share of senior secondary school students had enrolled in private schools and the remainder attended the relatively few government secondary schools[2]. As school participation rates rose, the demand for new places in government secondary schools increased. Declining enrolments in Catholic schools also placed pressure on the State school system. Many State governments felt ill-equipped to meet the demand for secondary schooling and wanted to encourage the private school sector to take more secondary school students (Spaull 1987: 59). State and Federal governments were also responding to the political pressure created by the Catholic campaign for state aid. During the 1960s, the power of the Democratic Labour Party to direct its preferences during elections, made it difficult for the major political parties at the State and Federal level to resist DLP demands for the introduction of direct funding for non-government schools (Freudenberg 1977, Smart 1978: 69)

Figure 4.1 Expenditure per student on private schools, by level of government, 1961-2 to 1994-5 (constant in 1994-5 prices)



Notes: The data exclude expenditure on preschools and capital works, and includes expenditure on special education, targeted programs and joint programs. Commonwealth expenditure on joint programs is attributed to government schools. The data are drawn from all Australian States excluding the Australian Capital Territory and the Northern Territory. Expenditure is in constant prices deflated by GNFP(e).

Sources: Commonwealth Budget Papers; ABS Cat. No. 4221.0 *Schools Australia*; ABS Cat. No. 5510.0 *Expenditure on Education , Australia*; ABS (1996) "Expenditure on Schools" Unpublished Data.

In 1964 with a small pool of capital grants, the Commonwealth government introduced the first program of direct financial assistance to non-government schools in the 20th Century. In 1967, the governments of Victoria and New South Wales introduced financial assistance to non-government schools for recurrent purposes and in 1969, recurrent grants for non-government schools were introduced by all remaining States

[2] Non-Catholic independent schools have always captured a disproportionate share of secondary school enrolments. For example, in 1996, this group attracted 13% of total secondary school students, compared to only 7% of total primary school enrolments (ABS Cat. No. 4221.0)

and the Commonwealth (Praetz 1982:13, ABS 1996). In 1974, a major new scheme of Commonwealth funding was introduced following the Karmel (1973) report.

With the implementation of the Karmel report, all non-government schools received significant increases in their subsidies from both levels of government[3]. State governments made steady increases in their contributions to non-government schools, but they did not match the rapid increases in per capita funding provided by the Federal government, as illustrated in Figure 4.1. The introduction of Federal and State funding did not stop the drift away from non-government schools immediately, but by 1977 the trend had reversed and enrolments in private schools began to recover, and have been climbing steadily ever since.

1.2 The effect of needs-based funding

Non-government schools operate within an environment of limited market competition. With minimal regulation from State governments, private schools have been free to establish anywhere and to compete both with other non-government schools and schools in the government sector. The commercial viability of any private school depends on its ability to attract and to retain students. In the beginning, the "product" offered by non-government schools was a strong religious element in their educational programs and they attracted students on the basis of religious affiliation. For the majority of Catholic primary schools, religious affiliation is still a criterion for enrolment.

Since the Second World War, as religion has become less significant in the definition of cultural identity, non-government schools have marketed their education services in terms of school quality[4]. At the secondary level, where the non-government sector is strongest (see Table 4.2), school quality has been marketed in terms of positional goods often expressed in terms of academic achievement, discipline, resources and school-parent relations (Marginson 1997: 157). The merit-based competition for university entry provided private schools with a means of differentiating their educational products from competing schools in both the government and private sectors. As university entry is a competitive system, schools and their students are involved in a competitive process, particularly at the senior secondary level. In metropolitan areas, where urban transport systems enable students to travel outside their locality, enrolments in non-Catholic private schools have increased markedly since the mid-1970s (Marginson 1997: 154).

When the non-government sector's competitive position *vis a vis* government schools deteriorated during the 1960s, the government decided to provide a form of industry assistance to keep the sector afloat and to improve its relative standing. The provision of government subsidies changed the nature of competition within the private school sector and between government and non-government schools.

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[3] In implementing the Karmel report, the Federal government obtained the agreement of State and Territory governments to contribute around 20 per cent of the costs of a non-government school place.

[4] An exception to this was the rise of fundamentalist Christian schools in the 1970s and 1980s, which still attract students on the basis of religion. These schools now account for about six per cent of non-government school enrolments.

With its "needs-based" funding scheme[5], the Commonwealth Schools Commission ignored the existence of competition in education. It introduced a system of differential per capita grants according to the assessed financial needs of the school or system. Financial need is determined by the school's access to private income (mainly school fees) measured by an Education Resources Index (ERI). On the basis of their assessed financial need, schools are placed in one of several funding categories and the level of per capita grant differs according to the funding category of the school. The Catholic school system is assessed as having a high level of need, and therefore receives higher levels of per student funding. Schools in the higher funding categories receive per capita grants at about four times the rate paid to schools in the lower funding categories[6]. Seventy per cent of all non-government schools – including the Catholic systems – are now in the highest funding quartile.

Although the financial needs of schools are inversely related to the financial capacity of their clients, the ability of parents to afford the fees at their chosen school was not taken into account. For example a high-income family attending a Catholic systemic secondary school in South Australia (funded at Category 10) would attract a Commonwealth government subsidy that is 3.5 times the grant that they would attract if their child attended a Category 1 school (DEET 1996: 212). The capacity of the family to pay is the same, yet their entitlement to a grant differs depending on the funding category of the school. Likewise, low-income families receive less government assistance if they choose to send their child to a school in Categories 1-3. The levels of grants under the Commonwealth General Recurrent Grants Program are provided in Appendix Four.

The Education Resources Index is defined as an indicator of "the capacity of a school to generate funds on its own behalf". (KPMG 1996). However, an independent evaluation of the General Recurrent Grants Program, concluded that the ERI was a poor indicator of the financial needs of schools. It noted that schools with very different socio-economic circumstances could have the same ERI; some schools with large asset bases were in high funding categories; and that the ERI worked against the needs of established schools (KPMG 1996).

In the twenty-five years since the scheme began, the problems associated with funding schools according to their financial "needs" have become increasingly difficult to resolve. The main problem is that all non-government schools would like to be in the higher funding categories because they would be in a more advantageous competitive position. When providing information to the Commonwealth about their resource levels, schools have a strong incentive to manipulate the data to maintain a more favourable ERI rating. This can be done by employing accountants to minimise declared income, assets and expenditure or by linking a school's accounts to other bodies, such as a church or religious order. In the case of systems, where funds are paid to a central authority, rather than individual schools, authorities have some capacity to direct resources to expansion instead of raising standards in existing schools.

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[5] The "needs-based" funding scheme is described in more detail in Appendix Four.

[6] Although it was intended that the wealthiest private schools would receive no funding, the Whitlam government was forced to accept the compromise that all schools received some funding as a condition to get the legislation passed in the Senate.

As the Commonwealth became aware of these techniques, it tightened its assessment criteria and introduced new criteria to make it very difficult for schools to change their funding category[7]. In the post-1996 funding reassessment, only five of the thirty-eight schools whose ERI indicated a change to a more favourable funding category were allowed to change category. On the other hand, twenty-two of the forty-two schools whose ERI indicated a less favourable funding category were moved down. The KPMG Management Consultants concluded that "the additional ERI requirements tend to – at best – lock (schools) into an existing funding category or – more commonly – put the school into a lower funding category" (KPMG 1996)

Over time, the basis for calculating the ERI has become so complex that it is difficult to understand exactly how assessments are obtained. The KPMG evaluation ran some simulations to assess the effect of changed circumstances on a school's ERI, using the financial data from 12 different schools. The result was that the ERI was sensitive to the changes in some schools but not in others. The evaluators concluded, "for these 12 schools, changes in the ERI were more likely to be caused by the structure of the ERI than a change in the school's circumstances" (KPMG 1996).

A second problem for existing non-government schools was the provision of government funding to new entrants into the non-government schools market. As the Karmel scheme aimed to reverse the drift of enrolments away from government schools, there was no reason to discourage the growth of non-government schools (Marginson 1993: 208). Funding under the Karmel model was open-ended, and new entrants could receive funding once they were registered by State governments. However, the funding scheme treated new entrants more favourably than it treated older established schools. New non-government schools were able to determine their funding category by providing data on *projected* income and enrolments, whereas existing non-government schools were assessed on the basis of *past* expenditure.

While the ERI system effectively "locked" an existing school within a funding category and gave it no scope to change its clientele, or its fee structure. New non-government schools were free to structure their operations in order to minimise their ERI and therefore attract higher levels of government funding. The influx of new entrants increased the competitive pressure on existing schools, particularly those locked into the lower funding categories[8]. The non-government schools in the lower funding categories declined compared to other non-government schools. Between 1989 and 1994, the total number of enrolments in Category 1-3 schools declined by 2,588 students. Over the same period, enrolments in Category 4-12 schools increased by 49,094 students (McKinnon 1995a:12).

[7]The regulations governing reviews include a "maintenance of effort" and "private income test" that make it difficult for a school to improve its funding position (see KPMG 1996).

[8]The open-ended model also made it difficult for the Federal government to restrain its outlays on non-government schools when the balance between government and non-government enrolments was restored.

In 1996, the Coalition government removed some of the restrictions designed to stop manipulation of the ERI[9] and implemented an election promise to review it. The outcome of the review had not been announced before the next Federal election in October 1998. Yet during the election campaign, the Government and the Opposition promised to re-categorise the Catholic school system to Category 11, with no mention of changes to the funding categories of any other schools (see Chapter Two).

The competitive position of all non-government schools has been influenced by the provision of government subsidies. By funding schools on the basis of their present financial needs (ie. current fee levels), the funding scheme dictated how those schools would operate in the future. High-fee schools were locked into a low funding category which forced them to continue to charge high fees and thereby limit the type of students they could attract. The placement of low-fee schools in higher funding categories meant that they could continue to charge low fees while raising their educational standards. The scheme gave all non-government schools a strong incentive to obtain a higher funding category in order to compete as low-fee schools.

Although one-third of non-government schools were disadvantaged by the needs-based funding formula, the provision of Commonwealth funding improved the competitive position of all non-government schools relative to government schools. The Federal government did not pursue any changes to the regulatory environment to equalise competition between the public and private sector. Private schools continued to enjoy the freedom to select and to reject students. In contrast, all but a few government schools were required to accept students under open enrolment policies. The non-government schools' autonomy over student selection gave them the power to differentiate themselves from government schools in terms of the characteristics of their student populations. Given the importance of student characteristics in achieving educational outcomes, autonomy over student selection afforded non-government schools a significant competitive advantage over government schools.

In its early years, the Schools Commission explored alternative models of funding for non-government schools that would have changed this aspect of the Karmel model. In its first triennial report in 1976, the Commission raised the idea of "supported non-government schools." Under this proposal, non-government schools would have two choices: to remain a partially subsidised school, with about two-thirds of its resources provided by government, or to be a "supported school" with one hundred per cent of resources provided by government. Schools choosing to be fully "supported" by government would have less autonomy over student selection. "Conditions relating to public accountability, access to students, openness, and public representation on government bodies were to be attached to such a level of funding, although the Commission was at pains to stress that the identity or characteristic features and philosophies of the schools would not be prejudiced" (Schools Commission 1978: 47). The Commission assumed that two-thirds of non-government schools (ie. those receiving higher levels of funding) would opt for "supported school" status if the program was introduced (Schools Commission 1978: 47). However, the concept of

[9]With the abolition of the New Schools Policy, it is now possible for a non-systemic school to join a system at the system's level of funding, not at the school's current level of funding. It is also possible for a school to close down and legally re-open as a new school the next day with a new funding category.

supported schools was never implemented[10]. Instead, the Karmel model of differential vouchers without any service obligations on the part of schools was entrenched as the preferred basis for funding non-government schools.

Competition between schools was intensified by the provision of government funding, which increased the incentives for non-government schools to manipulate the "needs" assessment criteria. The government's failure to set any limits to the growth of new entrants also increased competition between schools, yet the funding scheme ensured that non-government schools did not compete for students on an equal basis. Under the Karmel plan, non-government schools had a competitive advantage over government schools in that they remained free to select their students. The anomalies created by the needs-based funding scheme grew as the size of the non-government sector increased.

2 Achievement of fiscal policy goals

One way to understand the funding of school education in Australia is in terms of three – often competing – government policy priorities. These three priorities are to ensure that: (1) all students complete a minimum level of schooling; (2) at an acceptable standard[11]; and (3) at least cost to government. Patterns of government expenditure on schools reflect a trade-off between these priorities, particularly between the third consideration of cost against the first two priorities of mass participation and minimum standards of provision. The main policy instrument for exercising this trade-off has been the existence of a private school sector which has enabled governments to avoid responsibility for the full cost of provision. For nearly a century in Australia, at least twenty per cent of school students have been educated outside of the government-funded systems – saving governments up to one-fifth of the total cost of schooling[12].

In the 1960s, the cost of education provision became too high for the private sector to maintain standards relative to government schools, and it did not have the financial capacity to expand to meet increased demand. As the private sector's enrolment share declined, State governments introduced subsidies to ensure that private providers remained viable. The Federal government supported this policy in response to political pressure for Federal involvement in schooling. An economic rationale for State government intervention to keep the private schools sector afloat was to relieve the cost

[10]Given the funding arrangements that were in place, it is not surprising that the "supported schools" concept was not adopted. For the Federal government it would have meant increased expenditure and for the Catholic system it implied that funding would be linked to increased regulation – a situation which they had rejected a hundred years earlier.

[11] This implies an acceptable standard of provision (inputs) which is a pre-requisite for an acceptable standard of performance (outputs).

[12] The cost of the enrolment trend was highlighted by a Catholic school strike in Goulburn in 1962 where Catholic schools closed their doors for a week and sent their children to local State schools to impress on government that it could not afford the demise of the Catholic system. It is not completely accurate to compare average costs per student because the unit cost of an additional place in a private school may not be the same as the marginal cost of an additional place in the public system. Estimating average costs per student place is the norm in most studies of costs such as Mathews (1972), and in statistical reports produced by the CSC, DEETYA and the AEC. The calculation of marginal costs is beyond the scope of this thesis.

burden of providing places for students in government schools[13]. The Federal government's policy rationale was couched in terms of meeting the resource needs of non-government schools. Overall, the joint policy goal of both Federal and State governments in restoring direct funding to non-government schools was to reverse the drift of students away from private schools. To achieve this goal, the funding scheme aimed to raise the standards of provision in the non-government sector, thus improving the relative quality of non-government schools compared to government schools.

2.1 Shifting costs to the private sector

As illustrated in Table 4.1, the Karmel funding system succeeded in reversing the drift of enrolments away from non-government schools. In 1977, the non-government sector's share of total student enrolments reached a trough of 21 per cent. From this point on, the proportion of total students attending non-government schools increased steadily. Within eight years of the commencement of the Karmel scheme, the drift away from non-government schools had been reversed. By 1983, the non-government sector's enrolment share was restored to 24 per cent. Between 1975 and 1995, the number of students enrolled in non-government schools increased by 45 per cent, while enrolments in government schools declined by 3.6 per cent (Australian Bureau of Statistics Cat. No. 4221.0). In 1996, 29.3 per cent of students were enrolled in non-government schools.

Table 4.1 Proportion of students enrolled in non-government schools, Australia 1966 to 1995

Year	%	Year	%	Year	%	Year	%	Year	%	Year	%
1966	23.3	1971	21.8	1976	21.2	1981	23.0	1986	26.4	1991	27.9
1967	23.0	1972	21.5	1977	21.1	1982	23.8	1987	26.9	1992	27.9
1968	22.6	1973	21.5	1978	21.3	1983	24.4	1988	27.3	1993	28.1
1969	22.2	1974	21.5	1979	21.8	1984	25.1	1989	27.6	1994	28.5
1970	22.0	1975	21.3	1980	22.3	1984	25.8	1990	27.9	1995	29.0

Source: ABS Cat. No. 4221.0. *Schools Australia,* various years.

The non-government sector expanded most at the secondary level. During the 1980s, non-government secondary school enrolments increased at a higher rate than at the primary level and between 1984 and 1996, the gap between the non-government sector's enrolment shares of primary and secondary education grew wider. As shown in Table 4.2, between 1972 and 1984, the enrolment share of non-government secondary schools increased by 4 percentage points compared to 3 percentage points in primary schools. Between 1984 and 1996, the non-government sector's share of secondary school enrolments increased by almost 6 percentage points, while in primary schools, it increased by just over 3 percentage points. While the total number of secondary students increased by 41,392 over the period, over 80,000 additional students enrolled in private secondary schools.

[13]Debating the relevant legislation in the Victorian Parliament, a government minister said that the assistance would help non-government schools cope with increasing enrolments and "prevent the state system from being overburdened to the point of possible embarrassment" (Rossiter 1967: 306).

Table 4.2 Enrolment shares of private sector, by level of schooling, selected years (%)

	1963	1972	1984	1996
Primary	22.7	20.0	22.9	26.0
Secondary	**26.9**	**24.2**	**28.2**	**34.0**

Source: ABS Cat. No. 4221.0. *Schools Australia*, various years.

With thirty per cent of students in private schools, governments provide on average, three-quarters of the cost of every private school place. If all students in private schools were fully funded, it would cost governments an additional $1.1 billion a year – a budget increase of nine per cent. This is how much the government now saves from subsidising private schools – and how much it would cost if all private school students entered the State system[14]. But Australia always had a large unfunded non-government sector, catering for around 20 per cent of students. Prior to 1967, governments saved one-fifth of their potential total expenditure on student places. By providing a subsidy to every private school student, governments sacrificed the savings they enjoyed when one-fifth of all students received no funding. If the private school sector had remained unfunded, and had declined to 15 per cent of enrolments, governments would be saving $1.8 billion a year. Even if the unfunded private sector declined to 10 per cent of total enrolments – the size it has remained in countries where private schools receive no government funding – Australian governments would save $1.2 billion a year. An unfunded private school sector would need to shrink to eight per cent of enrolments before the governments' policy of subsidising private education could be judged a fiscal success.

The net savings to government from each private school place has declined over the past two decades because the level of subvention in non-government schools has increased. As indicated in Appendix Two, income from government has become an increasing proportion of non-government schools' total income since 1974. Government subsidies have been substituted for private income and contributed services in non-government schools so that Commonwealth and State funding now comprises, on average, 70 per cent of non-government schools' running costs. In Catholic primary schools, for example, the level of subvention has increased from 64 per cent in 1976 to 78 per cent in 1994. In other primary schools, government funding has increased from 35 per cent of costs in 1976 to 54 per cent today. In secondary schools, on the other hand, the level of government subvention has not increased as significantly, and private income remains a substantial proportion of total expenditure (30 per cent in Catholic schools and 61 per cent in independent schools).

The increasing level of subsidies paid to non-government schools and the subsequent reduction in the level of private contributions can be attributed in large part to Commonwealth involvement in schooling. The Commonwealth is the major funding provider for non-government schools whereas States bear funding responsibility for a

[14] This is based on the average cost per student, not the marginal costs of additional student places, which would produce a lower figure.

much larger government school system. It has been relatively easy in budgetary terms for the Federal government to increase its per capita outlays on non-government schools to an extent that State governments would have found crippling if similar funding increases had been awarded to government schools, supported from State budgets.

The fact that the private school sector received most of its funding from the Commonwealth, provided State governments with a strong incentive to encourage the transfer of students to non-government schools. Until 1996, two-thirds of the cost of a non-government school place was paid by the Federal government. This meant that the States saved approximately $3,600 for every student who transferred to the non-government sector. In 1996, the Federal government introduced the Enrolment Benchmark Adjustment, which ensured that the full budgetary cost of all future growth in non-government schools would be borne by State and Territory governments (see Appendix Four). As a consequence, State governments now save only $1200 per student from each enrolment in the non-government sector.

The reason for Commonwealth involvement in schools funding was less to achieve fiscal policy goals than to improve the standards of provision in under-resourced private schools (Hogan 1984, Smart 1978). Unfortunately, Commonwealth funding policy for non-government schools has been determined in isolation from policy considerations about funding levels for government schools. Without the funding burden of providing for government schools, the Commonwealth found it relatively easy to award funding increases to the non-government sector. Federal involvement therefore contributed to the high level of subvention in private schools' running costs and may have facilitated the expansion of the private school sector.

2.2 Reducing the real private price of private schooling

The provision of Commonwealth funding enabled non-government schools to raise their standard of education provision while maintaining fees at reasonable levels. Although there was some substitution of government grants for private income, after 1975 when average private school fee levels increased, the same fee "bought" a higher standard of schooling than before. In 1985, and 1992, Ross Williams examined the extent to which this reduction in the "real private prices" of private schooling was responsible for increasing enrolments in the non-government sector (Williams 1985, Ruby, Wells and Wildemuth 1992: 22).

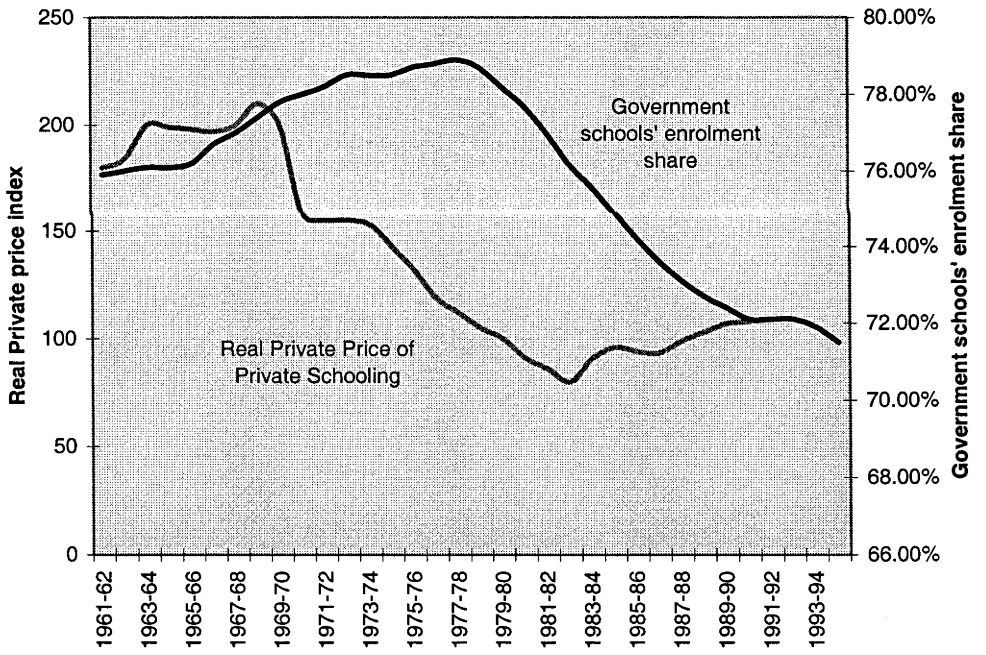
Williams recognised that as school fees purchased a given level of quality, if the service quality improved as a result of government grants, a given level of fees would purchase a higher quality service. He calculated the real private price of schooling as not just the level of average school fees, but the cost per unit of service, or the price of a given level of school quality. As a proxy for school quality, Williams used student-staff ratios.

Having incorporated school quality into his price index, Williams found that the real private price of private schooling had risen during the 1960s but fell after 1969, following the introduction of government grants to private schools. Even though the average real fees for private schools increased between 1970 and 1983, the real private price of private schooling fell because government grants were used to improve the

quality of non-government schools (as measured by staff-student ratios). In other words, the same level of fees purchased a higher quality of service due to the government's contribution to the non-government schools operating costs. Between 1970 and 1980, a 23 per cent increase in real average fees "bought" a 40 per cent increase in school quality as measured by staff-student ratios.

By improving the quality of non-government schools while keeping the fees at a constant level, governments assisted the sector to recover its former enrolment share. As illustrated in Figure 4.2, as the real private price of private schooling began to decline between 1970 and 1983, the enrolment share of government schools declined from 1977. Williams suggested the lag of seven years between the initial fall in the real private price and the reversal of the trend in enrolment share was due to the tendency of students to complete one phase of their schooling in the same sector. Williams concluded that the main source of the enrolment shift was the effect of government grants, estimating that every $100 increase in government grants per student accounted for a 1.4 per cent increase in non-government school enrolments (1985: 626).

Figure 4.2 Real Private Price of Private schooling (79-80 =100) and government schools' enrolment share, Australia 1961-62 to 1994-1995



Sources: Real Private Price is drawn from Ross Williams' calculations in: Williams, R. A. (1985) "The Economic Determinants of Private Schooling in Australia", *Economic Record*, September, pp. 622-628; and Ruby, A., Wells, L., and Wildemuth, C. (1992). *Choice Theory and Education.* Occasional Paper No. 19. Canberra: The Australian College of Education. Enrolment shares are from ABS Cat. No. 4221.0, *Schools Australia,* various years.

Government funding after 1974 increased the affordability of non-government schools. However, the government's policy to encourage more students to enrol in the non-government sector could not be achieved simply by lowering the costs of private schooling. The relative quality of private schooling also had to improve if parents were to be persuaded to transfer out of the government school sector. After 1983, the link

Williams observed between the real private price of private schooling and the private schools' enrolment share ceased to exist. From 1983, the real private price of private schooling increased, yet the government sector's enrolment share continued to fall, as shown in Figure 4.2. After 1983, increasing numbers of students enrolled in private schools and their parents were prepared to pay a higher real private price for private schooling.

Although parents choose private schools for reasons other than cost (Anderson 1991: 150, Marginson 1997: 157), capacity to pay is a significant constraint on their options regarding choice of school. Acknowledging the complexity of motivations governing school choice, the issue of cost is very closely related to the issue of perceived quality, in terms of value for money. The Karmel funding model did not address the issue of relative school quality between the sectors, yet the importance of school quality to demand for private schools became apparent when the government tried to restrain outlays on non-government schools in the 1980s.

2.3 Attempts to restrain outlays on non-government schools

In the early 1980s, the Federal government tried to restrain the rising costs of the Karmel funding scheme in keeping with its broader agenda of budgetary restraint (Considine and Painter 1997: 5). In 1983, the Federal Minister for Schools, Senator Susan Ryan unsuccessfully sought to phase out recurrent funding to the wealthier private schools (see Chapter Two). In a settlement negotiated by Prime Minister Hawke's office in 1984, all non-government schools were guaranteed maintained funding levels with real increases for the low-fee schools, for the next eight years (Ashenden 1989). In the wake of its failed attempt to restrain growth in outlays on existing private schools, the government's focus shifted to restricting the growth of new private schools. To achieve this objective, in 1985, the Commonwealth Schools Commission developed a set of guidelines governing the approval processes for new non-government schools seeking Commonwealth financial assistance, known as the "New Schools Policy" (Watson 1997: 75).

Prior to 1985, funding for new non-government school places had been largely un-restricted, as any non-government school registered by a State or Territory government was eligible to receive assistance[15]. Under the New Schools Policy guidelines, new non-government schools were required to enrol a minimum number of students and funding was provided up to a maximum enrolment level. In 1988, the Federal government introduced an additional restriction limiting the funding of new independent non-government schools to the lower funding levels, Categories 1 to 6 (Department of Employment, Education and Training 1989:14). The guidelines explicitly sought to promote the principle of "planned educational provision" to maximise the use of resources and to discourage the duplication of school services. The main effect of the guidelines was to ensure that most new non-government schools were established in regions of population growth (such as new suburban centres) rather than in areas of population decline.

[15] Spaull notes that State Education Ministers raised concerns in the Ministerial Council in the early 1980s about the rapid expansion of Federally funded non-government schools and their negative impact on "the attraction and the economic viability of existing State secondary schools" (Spaull 1987: 265-266).

The New Schools Policy was not particularly onerous to the larger non-government school systems, who followed similar principles in their own planning processes and continued to have access to higher funding levels (Vassarotti 1996, Bromilow 1996). However the guidelines were effective in curbing some of the growth of smaller non-government schools that were established to foster particular religious and cultural beliefs or educational philosophies (Crimmins 1996, Layden 1996). The groups seeking government funding for these schools were often thwarted by the New Schools Policy guidelines that refused them funding on demographic grounds. Even when funding was approved, these "non-systemic" schools were restricted to funding Categories 1-6, which meant that they were obliged to charge higher fees than the Catholic school system in order to provide a comparable standard of service. The New Schools Policy was moderately effective in placing restraint on the growth of the non-government sector. Between 1985 and 1995, the proportion of total students enrolled in non-government schools increased by an average of 0.32 percentage points per year, compared with an annual average increase of 0.69 percentage points in the years before the New Schools Policy was introduced (see Table 4.1).

Table 4.3 Impact of factors on enrolments in non-government schools

Factor	Expected effect on non-government school enrolments	Change, 1982-83 to 1992-93 (%)
1. Cost of teaching	-	58.7
2. Real per student grants to non-government schools	+	16.1
3. Total outlays per student in government schools	-	13.4
4. Student-staff ratio in non-government schools	+	13.2
5. Student-staff ratio in government schools	-	7.4

Notes: Cost of Teaching is based on the Schools Price Index (Wages) which from 1988 excluded second-tier wage increases. Student-staff ratio refers to full-time equivalent units of teaching staff.

Sources: AEC (1994) *National Report on Schooling in Australia, Statistical Annex, 1993*; CSC (1984b) *Funding Policies for Australian Schools*; *Commonwealth Budget Papers*, various years; ABS (1996) "Expenditure on Education" Unpublished Data; ABS Cat No. 4221.0. *Schools Australia.*

The real private price of private schools also increased after 1983 but this did not deter parents from enrolling their children in non-government schools (see Figure 4.2)[16]. Contrary to the assumption arising from Williams' 1985 study that an increase in the real private price of private schooling would result in a decline in non-government school enrolments, demand for non-government schools continued to grow in the 1980s. The expected enrolment impact of factors influencing to the real private price of private schooling are detailed in Table 4.3. The main cause of the increase in the real private price was an increase in the cost of teaching. Between 1982 and 1992 the average cost of teaching increased by 58.7 per cent while government grants increased by only 16 per cent. Student-staff ratios in non-government schools improved by 13.3 per cent,

[16] The New Schools Policy may have contributed to the rise in the real private price of non-government schooling in the 1980s. By restricting supply at a time of high demand, the guidelines may have produced a scarcity of non-government school places that could be offered at a higher price.

indicating that school quality was not allowed to decline. Instead, the cost of increased teachers' salaries and the continuing improvement in staff-student ratios was met by parents paying a higher real private price for private schooling.

Several factors may have influenced parents' willingness to pay a higher price for non-government schools in the 1980s. An increase in the number of dual income households may have enabled more families to afford non-government school fees. The type of non-government schooling might also have been a factor in families' willingness to pay for private schooling. During the 1980s, the fastest growing area of non-government school enrolments was schools established by religious groups, cultural minorities and adherents of particular educational philosophies[17]. The clients of these schools might be less sensitive to price than parents seeking more mainstream provision. Nevertheless, these schools cater for only a small proportion of total non-government school enrolments and do not explain why the majority of families are now willing to pay a higher real price for non-government schools.

While price is significant in the decision to choose a non-government school, it is closely related to perceptions of school quality. As the quality of schools is usually judged in comparison with other schools, any changes in the relative quality of government secondary schools could have precipitated the transfer of students to non-government schools in the 1980s, in spite of an increase in the real private price of private schooling.

3 The relative quality of public and private schools

Although government funding policy was based on the assumption that a decline in the relative quality of private schools had affected the sector's enrolment share, the funding model only addressed the issue of school quality in terms of financial resources, or inputs. School quality can only be judged in terms of the educational outcomes achieved by students. It would be largely on this basis that parents would make the decision to transfer their children from public to private schools.

Schooling is a service designed to produce particular outcomes such as literacy and numeracy, vocational and social skills and academic achievements. Students bring their own abilities and resources to the education process, and the school provides further inputs that build on the students' initial educational "endowment" from ability and family background. The success of a school in delivering its services depends on its ability to maximise the outcomes of its students. As discussed in the previous chapter, a high quality school is one which adds the most "value" to its students in terms of their educational outcomes.

When a student's social background is taken into account, non-government secondary schools in Australia give students a small but statistically significant academic advantage over students from government schools. Using longitudinal data on Australian students, Williams and Carpenter (1990) compared student outcomes

[17] Between 1986 and 1995, of the 100,000 additional students who enrolled in non-government schools, over 80,000 were in non-Catholic schools independent of the major school systems (Australian Bureau of Statistics Cat. No. 4221.0).

between the sectors in four areas: literacy and numeracy achievement at 14 years of age; Year 12 completion; entry to higher education; and completion of a degree. Whereas the non-government school made only a slight difference to students' literacy achievements at 14 years of age[18], Williams and Carpenter found significant differences in outcomes between the sectors on the rate of completion of Year 12, shown in Table 4.4.

Table 4.4 Observed and Adjusted proportions and conditional probabilities of Year 12 completion, transition to university, and completion of degree for two cohorts, by sector

	Class of '78			Class of '82		
	Govt.	**Cath.**	**Indep.**	**Govt.**	**Cath.**	**Indep.**
			Year 12 completion			
Observed proportion	0.295	0.438	0.875	0.316	0.476	0.874
Adjusted proportion	0.325	0.378	0.642	0.351	0.430	0.617
Conditional probability	*0.314*	*0.447*	*0.450*	*0.297*	*0.441*	*0.539*
			Higher Education entry			
Observed proportion	0.454	0.523	0.641	0.416	0.483	0.663
Adjusted proportion	0.480	0.502	0.556	0.442	0.492	0.545
Conditional probability	*0.486*	*0.520*	*0.568*	*0.483*	*0.577*	*0.623*
			Completion of Degree			
Observed proportion	0.659	0.579	0.664	*n.a*	*n.a*	*n.a*
Adjusted proportion	0.675	0.606	0.588	*n.a*	*n.a*	*n.a*
Conditional probability	*0.692*	*0.666*	*0.703*	*n.a*	*n.a*	*n.a*

Source: Williams and Carpenter (1990) "Private schooling and public achievement" *Australian Journal of Education* 34(1):16.

After adjusting for student background, the Year 12 completion rates for Catholic schools were 5-10 per cent higher than government schools, and in non-Catholic independent schools were 20 per cent higher than government schools. In terms of entry to higher education courses, the data consistently favoured non-government schools after adjustment for social background. Catholic schools' transition rate to higher education was 4-5 per cent higher than government schools and the rate for non-Catholic independent schools was 8-10 per cent higher than government schools.

The academic advantage conferred by a private school education appears to cease at the point of university entrance. Once the students had enrolled in higher education, the rates at which students from each sector complete their degrees were reversed. After adjusting for social background, the authors found that 67 per cent of government school students completed their degree, compared to 61 per cent of students from Catholic schools and 59 per cent of students from Independent schools (Williams and

[18] On the achievement measure (literacy and numeracy tests at 14 years of age) there was a very small but significant difference in learning outcomes between the sectors, after the data were adjusted for social background. The authors concluded cautiously, "..while there is evidence of net between-sector differences in learning that one might attribute to between-sector differences in schooling, most of the observed public/private differences in achievement are due to aggregate public/private sector differences in student attributes" (Williams and Carpenter 1990: 18).

Carpenter 1990:20). This was consistent with findings from other research into achievement among first year university students (Dunn 1982 and West 1985).

Social background is not a perfect proxy for educational endowment as the students from lower socio-economic backgrounds in non-government schools may have been selected because their attitude and motivation differs from the norm for their social group. Williams and Carpenter therefore analysed the results for a specific group with common socio-economic characteristics, family expectations, and self-concept of ability, thus strengthening the basis for comparison between the sectors (Williams and Carpenter 1990:16-17)[19]. Table 4.4 shows the probability of students with similar characteristics achieving each of the attainment measures. On the basis of this analysis, the authors concluded that students in the same cohort who have similar abilities, background and expectations have a probability of completing Year 12 of 0.297 if they attend government schools, 0.441 if they attend Catholic schools and 0.563 if they attend Independent schools. The probability of entering higher education also increased in a non-government school, from 0.483 for government school students, to 0.577 for Catholic schools students and 0.623 for Independent school students. In other words, when secondary students decide to transfer from a government school to a non-government school, they could reasonably expect to increase their chances of completing Year 12 and of gaining entrance to university, even though every individual would not automatically improve his or her prospects by making the transfer.

In summary, Williams and Carpenter demonstrate that a private school education delivers superior outcomes for students in terms of completing Year 12 and gaining entrance to university, but does not confer any advantages in terms of completing a university degree. The strengths of private schools appear to be in motivating students to complete Year 12 and in assisting them to maximise their university entrance scores. Although non-government schools tend to attract students with above-average expectations, when this is taken into account, students from the same social background who have the same expectations still have a higher probability of educational success if they attend a non-government school.

In the 1970s, government policy aimed to encourage students to transfer to non-government schools, but it was not the government's policy intention in the 1980s, once enrolments had been restored to previous levels. Yet in spite of the Federal government's attempt to restrict the expansion of non-government school places, and the disincentive of a higher real private price for private schooling, an increasing number of students transferred to non-government secondary schools in the 1980s. The fact that Year 12 student outcomes in private schools are superior to Year 12 outcomes in government secondary schools, could be the reason why increasing numbers of students transferred to non-government secondary schools during the 1980s. The important question to consider is why there is a difference between the quality of educational outcomes between government and non-government schools.

[19] Specifically, the group was males living in New South Wales with fathers born in Australia, with families of origin lying between the 25th and 75th percentile of the wealth distribution who were at the mean with regard to father's occupation, parental education, family size, rurality, the expectations of all three significant others, self-concept of ability and achievement (Williams and Carpenter 1990: 17).

4 Factors that influence school quality

While many factors influence school quality, the following analysis will be confined to factors that can be compared on a sectoral basis, and which are widely believed to be fundamental to the provision of quality schooling.

4.1 Resource-use in government and non-government schools

When the Karmel funding plan was introduced, the Federal government's educational objectives were broad and expressed entirely in financial terms. Although the government's educational goal was to improve the relative quality of non-government schools, school quality was defined in terms of resource-use. Funding was intended to raise the level of resource-use in non-government schools in order to improve school quality.

Table 4.5 Expenditure per student by type of school and level of schooling, 1993-94 ($)

	Independent	Catholic	Non-government	Government
Primary	4,308	3,193	3,297	4,408
Secondary	7,580	5,270	5,533	5,876
Combined	7,021	5,177	6,566	n.a
Total	6,753	4,146	4,972	4,452

Notes: Expenditure for government schools refers to the 1993-94 financial year, while expenditure for non-government schools refers to the 1994 calendar year.

Sources: MCEETYA (1996): *National Report on Schooling in Australia 1994, Statistical Annex,* Carlton, Victoria: Curriculum Corporation: 36.

By 1993-94, Catholic non-government schools were still spending slightly less per student than government schools and significantly fewer resources than independent schools (see Table 4.5). In terms of the Federal government's policy, Catholic schools would appear to be at a lower standard than government schools because they spend less per student than government schools. However, in terms of educational outcomes, Williams and Carpenter (1990) have suggested that this is not so.

Ross Williams points out that the level of resources available to government schools is relevant to any explanation of the transfer of enrolments between the sectors (Williams 1985). He suggested that if government funding of government schools increased at the *same* rate as government grants to non-government schools, there would be a small net drift of students to government schools (Williams 1985: 626). Average government outlays per student in government schools increased by an average of 1.3 per cent per year between 1983 and 1993 while government grants to non-government schools' students increased by an average of 1.6 per year (see Table 4.3). While the different rates of increase in funding could influence the relative quality of government and non-government schools, it does not explain why Catholic schools appear to produce better quality educational outcomes on fewer resources than the government school system.

4.2 School-based inputs to school quality

Although Williams and Carpenter (1990) demonstrate that non-government secondary schools produce better educational outcomes at the senior secondary level than government schools, they are not sure why this occurs. Williams and Carpenter conclude "For whatever the reason, the private sector appears to engender a level of commitment to educational attainments (and perhaps to education itself) that is independent of achievement" (Williams and Carpenter 1990: 21). Williams and Carpenter speculate whether factors such as resources, curriculum, teacher quality, pastoral care, discipline, and freedom from bureaucratic control are responsible for the differences in outcomes. They also emphasise that their results are suggestive rather than definitive, and that factors other than the quality of schooling could account for the between-sector differences (1990:17).

The Williams and Carpenter study confirms similar results obtained in analyses by James Coleman using the "High School and Beyond" data in the United States of America. "High School and Beyond" is a large longitudinal study of students in public and private schools funded by the US Federal government. In an analysis of the first wave of data from the study in 1982, Coleman, Hoffer and Kilgore (1982) found a small but significant superiority in scholastic performance by students in private over government schools. Like Williams and Carpenter, Coleman's team found that a student who moved from a government school to a non-government school would increase his or her chances of educational success by a small but significant amount. This led Coleman to suggest that private schools' policies in areas such as "homework, curriculum and disciplinary practices" made them educationally superior to government schools (Coleman, et al. 1982: 207). Coleman's findings have been used in support of subsequent campaigns for increasing choice in American schooling (Chubb and Moe 1990, Coleman 1990, Rouse 1998).

In spite of the reference by Coleman and Williams and Carpenter to factors such as "discipline", "homework" or "leadership", it is difficult to investigate the role of these inputs in the production of superior educational outcomes for a school sector. Although such factors may be important in producing educational outcomes, we must rely on input data that can be compared on a sectoral basis.

School-based inputs which appear to have a significant effect on student achievement, and which can be measured on a sectoral basis are teacher quality, class sizes and the characteristics of a children's peers (Glass et al. 1982, Larkin and Keeves 1984, Newbold 1977, Summers and Wolfe 1977). The education production function for comparing inter-sectoral quality can therefore be illustrated as:

$$A = F(GSES, TQ, CS, PG)$$

Educational achievement (A) is a function of a student's genetic ability and socio-economic status (GSES) interacting with school-based inputs such as teacher quality (TQ), class sizes (CS) and peer group characteristics (PG). Although we cannot provide specific values for each of these factors in the education production function, each of the

school-based inputs can be measured. Class sizes (CS) are measured by student-staff ratios, teacher quality (TQ) can be indicated by years of experience and qualifications, and peer group characteristics (PG) can be captured by the average ability of students or the average socio-economic status of the student population.

4.2.1 Teacher Quality

Of all the significant school-based inputs, it is most difficult to quantify teacher quality. Although qualifications and years of experience are usually associated with teacher quality, the evidence is complex and occasionally contradictory. It is likely that different types of teachers produce better outcomes for different types of students. Goldhaber and Bruer (1997) found that teacher qualifications in maths were a significant influence on students' Year 10 math test scores. Summers and Wolfe (1977) said that recently graduated teachers produced higher quality learning among low ability students, while those with more experience produced better outcomes with high ability students.

Although we cannot quantify the impact of differences in teacher quality in Australia, we can identify differences in characteristics of the teaching force between the sectors. A 1989 survey of teachers in Australian schools identified significant differences in the characteristics of the teaching work force between the independent schools on the one hand, and the Catholic and government schools on the other (Logan et al. 1990). Independent schools had the highest proportion of teachers with 4-5 years of initial training, and teachers in both Independent and Catholic schools recorded longer periods of service in the same school. Overall, teachers in the Independent schools sector were distinctively different on many characteristics, compared to teachers in Catholic and government schools. The authors summarised the survey findings in the following terms.

> . . . staff (in independent schools) held higher qualifications, had longer periods of service in the same school, indicated lower intention to transfer, occupied more positions which had some responsibility beyond their class room, were less inclined to belong to a union, adopted flexible employment patterns, were more active in professional and subject associations and made more use of tertiary institutions for in-service education. Both Catholic and government employing authorities shared these characteristics with the other non-government schools, but in lesser degree" (Logan et al. 1990: 45).

There are not many distinctive differences between the teacher profiles of Catholic and government schools however, the teacher profile of the Independent school sector is different in many important respects. Such differences in characteristics do not necessarily denote differences in teacher quality, but it is reasonable to assume that teacher morale in Independent schools appears higher than elsewhere, in light of their longer periods of employment in the same school. Until more definitive indicators of teacher quality are produced, we cannot draw any conclusions other than that teachers in independent schools are different in terms of qualifications and professional development, and they appear to be more satisfied with their jobs, than teachers in the other sectors. These differences in the teachers' characteristics may contribute to improved school quality and therefore be a factor in achieving the superior learning

outcomes observed in students from independent schools. However, with the possible exception of good morale, teacher characteristics cannot be held responsible for the superior educational outcomes in Catholic schools where the teaching profile is similar to the government system.

4.2.2 Class size

Although parents and teachers place considerable importance on the relationship between class size and school quality, the benefits of smaller classes are still contested (Marginson 1993: 90-101). Recent studies have also found that the benefits of smaller classes differ between groups of students. Whereas smaller classes deliver significant improvements in outcomes for low ability students, class size appears to be less important for high ability students (Word et al. 1990).

To the extent that small classes are conducive to better learning, their effectiveness is highly dependent on teacher quality. In a comprehensive review of class size research, Glass et al. concluded that smaller class sizes "provide an opportunity for improvements in classroom processes" (1982: 67). Such improvements include improved levels of student attention, producing more "time-on-task" per student, as well as more contact between students and teachers, resulting in higher student motivation. In general, students in smaller classes have more opportunities to participate in learning activities, more interactions with the teacher, and are likely to be monitored more closely. The beneficial effect of smaller class sizes is therefore dependent on the quality of the teacher. If the teacher doesn't maximise the opportunities presented by smaller classes, the potential for improved learning will be wasted (CSC 1984a: par 5.37).

Table 4.6 Average student-teaching staff ratio by level of education, category of school, 1986 and 1996

	Government		Catholic		Independent		All non-government	
	1986	1996	1986	1996	1986	1996	1986	1996
Primary	18.2	17.8	21.1	20.0	17.2	16.1	20.2	18.8
Secondary	12.3	12.7	14.4	13.7	13.1	11.7	13.9	12.8

Source: ABS Cat. No. 4221.0 *Schools Australia* 1986, 1996.

Whereas the independent school sector has a lower student-staff ratio, the average student-staff ratio in Catholic schools is higher than government schools. At the time of the Williams and Carpenter study, the differences were greater than they are today, as shown in Table 4.6. Between 1986 and 1996, the average student-staff ratio in non-government secondary schools improved whereas in government secondary schools it deteriorated slightly. It is possible that the performance of Independent schools could be the product of its smaller classes, but it is not possible to draw such a conclusion for the Catholic sector. It is possible that the Catholic system could have a different way of managing class sizes internally such as placing high ability students in bigger classes and low ability students in smaller classes. However, given the similarity between industrial awards for teachers, it is not likely that the Catholic system's class size

management practices would be significantly different to those of the government system.

4.2.3 Peer group characteristics

A third significant school-based input is the peer group characteristics of the student population. North American studies argue that peer group characteristics are a significant factor in school quality because peer group attitudes have a strong effect on individual students' motivation to study (Adler et al. 1989, Coleman et al. 1966, Henderson et al. 1978, McDill and Rigsby 1973, Murnane 1990).

The peer group characteristics of a school are the aggregate of individual students' ability, motivation and aspirations, which collectively produce the dominant ethos among students towards learning (McDill and Rigsby 1973). For example, a high average level of student ability would be more likely to produce a peer group culture focused on school completion and progression to higher education. A low average level of student ability would be more likely to produce a peer group culture that is dominated by non-academic interests, poor motivation to study, and few expectations of proceeding to further education. Peer groups influence student achievement at many levels, from groupings within the classroom, to whole school effects (Fuchs et al. 1998, Summers and Wolfe 1977)[20].

The most well-known study on peer group effects was the Coleman report in 1966 which argued that black students would benefit from attending white schools simply due to the influence of their peers. Summers and Wolfe (1977) found that *all* students (both black and non-black) benefited in terms of the largest growth in achievement scores, when in schools with a 40-60 per cent black student body, rather than in more racially segregated schools. However, the significance of peer group characteristics is not confined to race. Summers and Wolfe found that both *race* and *ability* were the most significant peer group characteristics in terms of their effect on individual student's performance[21].

The peer group characteristics of a school are often represented by the average socio-economic status of the student population because of the significant relationship between socio-economic status and educational achievement. The impact of peer group characteristics as measured by the average socio-economic status of students should not be confused with the impact of the socio-economic status of the individual student on his or her learning outcomes. The social background of the student is an *individual* characteristic that influences a student's educational performance. The average socio-economic status of the student's peer group is a *school-based* characteristic that influences each student's achievement.

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[20] As for any school input, peer group characteristics do not offer a complete explanation of differences in school quality. Evidence that schools with almost identical socio-economic profiles can have vastly different educational outcomes (see Lamb 1997) suggests that other inputs must also play a significant role in school performance.

[21] Peer group characteristics found to be *not* significant included the percentage of students getting free lunches, student mobility, the median income of the feeder areas, the change in income of the area, and average daily attendance levels (Summers and Wolfe 1977:647).

Table 4.7 Proportion of parents in professional and clerical occupations by school type, Australia 1980.

Sector	Proportion of Students (%)
Government schools	42
Catholic schools	58
Independent schools	82

Source: Anderson (1992) "The interaction of public and private school systems". *Australian Journal of Education,* 36(3): 213-236.

Using the occupational status of parents to measure peer group effects in Australian schools, Table 4.7 indicates that students from lower SES backgrounds are the dominant peer group in government schools while students from higher socio-economic backgrounds are dominant in Independent schools. Catholic schools have a higher proportion of high SES students than government schools but less than Independent schools. These data are drawn from the same survey that Williams and Carpenter (1990) used when comparing government and non-government school performance. The proportion of parents in professional and clerical occupations in government schools was 42 per cent, compared to 58 per cent in Catholic schools and 82 per cent in Independent schools. Peer group effects might explain part of the difference in performance between students in Catholic schools and government schools, in spite of the lower average level of resource-use and larger class sizes in the Catholic system.

Neither Williams and Carpenter (1990) in Australia, nor Coleman, Hoffer and Kilgore (1982) in the USA took into account peer group characteristics in their comparison of public and private school performance. An American economist, Richard Murnane, re-analysed the data used in the Coleman et al. study, to take into account differences in student composition, and the significant association between school type and student performance disappeared (Murnane 1986). Murnane argued that a large part of the observed difference in school quality between the public and private sector was due to differences in the social composition of the student population within each sector. While the original study had controlled for students' social background, it had not taken into account the average socio-economic status of the school population. Murnane's analysis indicated that if a government school student moved into a non-government school *and took his or her classmates along*, the educational advantage associated with attending a non-government school ceased to exist (Murnane 1986: 145).

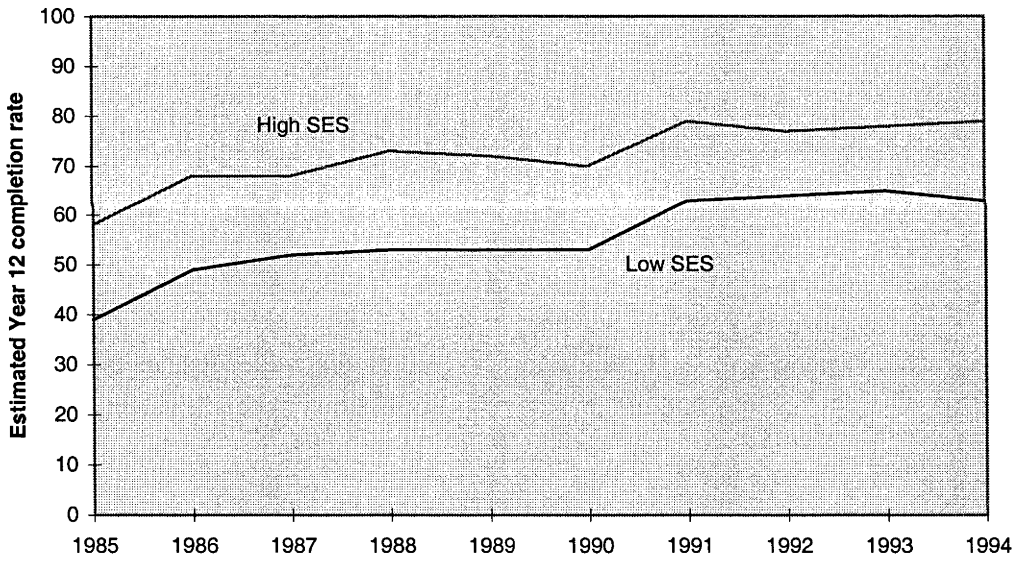
Given the absence of other explanations, at least part of the difference in outcomes between government and Catholic schools observed by Williams and Carpenter could be attributed to differences in peer group characteristics. The superior educational outcomes of Independent schools can probably be attributed to higher resource levels, differences in teacher characteristics, smaller class sizes and peer group effects. However from the above analysis of factors that influence school quality, the one area in which the Catholic system differs from government schools is in the peer group characteristics of its student population.

4.2.4 Changes in the social composition of the student population

We have observed that the relative quality of non-government schools is higher than government schools (in terms of Year 12 outcomes). We also know that peer group effects contribute to the relative quality of learning outcomes in schooling. It may be useful to consider the possible impact of recent changes in the peer group characteristics of the student population on the relative quality of public and private schools.

The peer group characteristics of the whole secondary student population changed significantly during the 1980s, due to a government policy to increase Year 12 retention rates. Year 12 retention rates increased from 36 per cent in 1982 to over 70 per cent in the 1990s. The expansion of senior secondary enrolments in the early 1980s produced an increase in the proportion of students from lower socio-economic backgrounds at the senior secondary level. As shown in Figure 4.3, the proportion of students from the lowest SES deciles completing Year 12 increased from 39 per cent in 1985 to 63 per cent in 1994. The students attempting Year 12 in the 1980s possessed different socio-economic characteristics to the senior secondary students of previous decades.

Figure 4.3 Estimated Year 12 completion rate by socio-economic status, 1985 to 1994



Notes: Socio-economic status is determined by the ABS Index of Education and occupation, on the basis of Year 12 students' home address. 'Low SES' refers to the average of the lowest three deciles and 'High SES' is the average of the top three SES deciles.

Source: AEC (1990) and MCEETYA (1996) *National Report on Schooling in Australia Statistical Annex.*

These changes in the secondary school student population would have altered the peer group characteristics of all senior secondary students. Given that government schools cater for the highest proportion of low SES students, the government school sector would have been the most affected by changes in overall student composition. Non-government schools enrol a higher proportion of high SES students not only because they charge fees but because they are able to select students on other criteria, including ability, ambition and motivation to study. Therefore the average level of ability and the

social background of non-government school students would not have changed to the same extent as in the government school system.

Peer group characteristics influence educational outcomes in different ways for different groups of students. Summers and Wolfe found that low-achieving students (those who tested at grade level or lower) appeared to receive the most benefit from being in a school with high-achieving students. The high-achieving students, on the other hand, were not particularly affected by the average level of ability of their peers.

> High achievers are relatively unaffected by variations in the percentage of top achievers. But, for the low achievers, the intellectual composition associated with the other characteristics of the student body has a direct impact on learning (Summers and Wolfe 1977: 647).

To the extent that peer group characteristics influence school quality, the changes in secondary student participation in the 1980s would have affected the quality of government schools. Such changes would be likely to cause students to transfer out of government secondary schools to the non-government system, in spite of an increase in the real private price of private schooling. The power to select students, and therefore to determine peer group composition gives schools the opportunity to differentiate their student body in a way that will enhance school quality. Schools with more power over student selection – or school location – will have a competitive advantage over schools which are not as well placed to select their students.

Whereas the benefits of peer group composition can be obtained through student selection, other inputs to school quality come at a cost. While schools affected by changes in their student populations could maintain quality by providing smaller class sizes or better teachers, they would have to purchase these inputs. Favourable peer group characteristics can be obtained at no cost through selective enrolment. Increased resources were not provided to government schools in the 1980s to compensate for changes in student social composition. Funding for government schools increased at a lower rate than for non-government schools.

An issue for policy is that the advantages of peer group selection in terms of school quality can only be obtained by a limited number of schools at any one time. It is impossible for all schools to improve their peer group characteristics simultaneously. Improvements in the peer group characteristics of one school can only gained *at the expense* of another school. The benefits of a favourable peer group composition in one school cannot be replicated by another school, unless all the students transfer from one school to another. The critical fallacy of composition is that while individual students may be able to improve their education by moving to a school attended by students of above-average ability or socio-economic status, it is impossible for all students to attend such schools[22]. In other words, the aggregate of individuals' investment decisions (ie. each acting to maximise self-interest) does not translate to better schooling for all. This poses a dilemma for governments aiming to improve school quality for all. If the quality of some schools is only gained at the expense of other schools through peer

[22] Murnane (1986: 142) argues that if all students moved from the government to the non-government sector, the superior performance of non-government schools would probably disappear.

group composition, additional policy instruments are needed to ensure quality in all schools.

4.3 Summary

Independent (ie. non-Catholic private) schools spend on average fifty per cent more resources per student than other schools, have a different profile of teacher characteristics, have smaller class sizes and are distinctly different in terms of the characteristics of their student populations. All these factors probably contribute to the higher quality of Independent schools as measured by students' academic outcomes in Year 12.

Catholic schools, on the other hand, spend slightly less per student than government schools, have similar teacher profiles and slightly larger average class sizes than the government system. The only input in which Catholic schools are better off than government schools is the peer group characteristics of their student populations. Within the limitations of this comparison, the peer group characteristics of Catholic schools could contribute in part to the slightly higher school quality demonstrated by the Catholic sector. However we cannot assume that peer group characteristics alone account for the quality of Catholic schools compared to other schools[23].

It is also likely that changes in social composition affected the quality of government secondary schools compared to non-government schools during the 1980s. If the quality of the public school system is not maintained relative to the private school sector, students can be expected to transfer to private schools, just as they transferred to the government system when the reverse was occurring in the 1960s. In the 1980s, the effect of changes in peer group composition together with the rapidly improving resource base of non-government schools could have provided sufficient cause for students to transfer to the private sector, in spite of the increased real private price of private schools.

Given that peer group characteristics influence school quality, the social composition of school populations should be acknowledged in any schools funding framework. A further implication of the role of peer group characteristics in determining school quality is that competition and school choice alone are not sufficient to improve educational outcomes for all students (Adler et al. 1989: 208)[24].

[23]There are variations within sectors that are beyond the scope of this comparison of outcomes between sectors.

[24] This Scottish study found that while individual parents who exercised choice tended to boost their children's attainment, the accumulated effects of individual choosing were to increase educational inequalities between schools and social polarisation among student populations.

5 Competition and school education policy

> Schooling is not a race, its major objective is not to identify winners and losers but to give maximum assistance to all young people growing up. It should be seen as intervention designed to widen the options, possibilities and experience open to all children, and particularly to those whose options were more limited.
>
> Schools Commission (1975) *Report for the Triennium 1976-78,* Canberra. AGPS. p. 7.

Competition has always existed in schooling, because of education's function as a gatekeeper to careers and well-paid employment (Marginson 1997). Education has an important function in fostering a child's intellectual, social and emotional development, but its material purpose has a major impact on an individual's life-long earnings and job prospects. Although the Schools Commission tried to emphasise the multiple roles of schooling, it was unrealistic for Federal policy makers to deny the importance of competition in education. The provision of government funding fundamentally changed the nature of competition between all schools in Australia and has had an impact on the lifetime opportunities of millions of school children.

There are three main ways in which competition is important to schooling. The first competitive arena is for access to higher education. In Australia's merit-based system, access to universities is determined by competition between students in Year 12. The preparation for this competition begins thirteen years earlier, and increases as students approach Year 12 assessment. Success in the race for university entrance delivers significant material rewards in terms of life-time earnings for individuals. In this arena of individual competition, students can gain a competitive advantage through natural ability, hard work, and the purchase of a higher quality education (Marginson 1997: 133).

The second arena of competition is between schools – mainly private or selective schools – for students. When parents decide to invest time and/or money in their child's education, they seek the educational environment most likely to deliver educational success. They judge schools on the basis of academic results as well as other factors. Schools therefore compete with each other for potential clients. (Edwards and Whitty 1992). Peer group characteristics are an important aspect of school quality in the education market. To enhance the quality of their learning environment, (and thereby improve their market position) schools can offer scholarships to able students as well as rejecting students whom they consider undesirable. Success in the competition between schools goes to those which offer the highest quality learning environment at an affordable price. Success tends to breed success, because the school which achieves the best Year 12 results attracts more potential clients from which to select its future students. In this arena of competition, schools can obtain a competitive advantage by being as selective as possible in choosing their students.

A third arena of competition in education has been introduced by governments in an effort to improve school quality. Through the abolition of zoning in government schools, and the relaxation of restrictions on new non-government schools, parents have

been given more power to select the school of their choice (Caldwell and Hayward 1998). Competition policy in schooling aims to improve school quality through widening consumer choice, thereby hoping that only the effective schools will survive under competition (Chubb and Moe 1990). It is argued that public schools react to competition by upgrading their provision and respond to parents' demands for more demanding curricula and a more structured classroom environment (Hoxby 1998).

The argument that competition between schools will improve educational efficiency was developed by Milton Friedman in 1962. Friedman did not advocate the privatisation of schooling, but he questioned the government's role in providing school education services as opposed to simply funding them (Friedman 1962: 85-98). Friedman argued that the legitimacy of government provision of schooling rested on three key assumptions: first, that governments should establish and monitor education standards; second, that governments should finance school education to ensure universal access; and third, that governments were the most efficient and effective providers of school education services. Friedman recognised the existence of "neighbourhood effects" or externalities from universal school education of a high standard. He therefore accepted that there is a role for governments in setting educational standards and in financing school education to a certain level.

Friedman challenged the third assumption that a system of government-run schools is the most efficient and effective way to provide education services (Friedman 1962: 89) and proposed that government funding should be provided to parents in the form of a voucher redeemable for a specified maximum sum per child per year if spent on 'approved' educational services. "Parents would then be free to spend this sum and any additional sum they themselves provided on purchasing educational services from an 'approved' educational institution of their own choice" (Friedman 1962: 89). Friedman's choice model was subsequently developed to incorporate the idea that vouchers could be "weighted" according to the financial means of the child's family, to enable children from lower income families to gain access to better schools (Center for Study of Public Policy 1970, Friedman and Friedman 1980, Levin 1968, Jencks 1966, Sizer and Whitten 1968).

As funding for Australian schools is allocated on the basis of the number of students enrolled each year, all schools – both government and non-government – are funded on a quasi-voucher system. Although the link between the government and the schools is not removed entirely – as Friedman's model implies – the mobility of the subsidy to facilitate parental choice is a key feature of the voucher system. In most States, a portion of the per capita funding for government schools is calculated on the basis of student characteristics, thus resembling "weighted" vouchers (Caldwell and Hayward 1998). In the non-government sector, however, the vouchers are "weighted" according to the purported financial needs of the schools.

For the voucher model to achieve its objective, two elements had to be in place. First, *all* schools – public and private – had to compete for vouchers on an equal basis; second, the vouchers had to be of equal value to all students, except where they were weighted to compensate for social disadvantages. In the United States, whenever governments have attempted to implement the voucher model, it has never been

possible to obtain the consent of all schools[25]. In Australia, both government and non-government schools are funded on a quasi-voucher system, but the vouchers are not of equal value and the basis for determining grant levels varies between schools and sectors. Although the efficacy of the voucher model has never been fully tested, Australian schools are closer to the voucher model than schools in the USA. The main obstacles to its full implementation in Australia are: 1) that government and non-government schools operate under different voucher systems; and 2) that the vouchers for non-government schools are not weighted according to student characteristics. It will be difficult to resolve these problems as long as both Federal and State governments provide funding to government and non-government schools[26].

In its June 1996 report, *Stocktake of Progress in Micro-economic reforms*, the Productivity Commission noted that it was time for a wide-ranging assessment of the nature of public involvement in education, health and community services. In regard to education, the Commission commented that the current regime for funding and delivering education services does not sit well with the principles of increased client choice and competition in service delivery. In the view of the Productivity Commission,

> Funding, charging and regulatory arrangements (for education):
>
> - limit students' institutional and course choices;
> - provide few signals to suppliers about students' preferences and restrict their ability to respond to those preferences; and
> - do little to encourage accountability for performance at either the institutional or teacher level
>
> (Productivity Commission 1996).

The current Federal government policy is to encourage competition between all schools (Kemp 1997d). In 1996 the Federal Minister for Schools, Dr David Kemp abolished the New Schools Policy guidelines, arguing that increasing the level of competition between schools would improve the quality of education provision (Kemp 1996a). Responsibility for determining the eligibility of new non-government schools for Commonwealth funding was returned to State and Territory governments. However, the abolition of the New Schools Policy has not removed the anomalies in Australian schools funding arrangements. Choice of schooling will continue to be affected by the fact that vouchers for non-government schools are not weighted on the basis of student characteristics and that levels of grants differ between States, and between government and non-government schools.

Until government and non-government schools are funded on the same basis, any benefits of increased competition can not be realised in Australian schooling. The competitive environment between schools remains distorted by the differences in the Federal and State funding schemes for government and non-government schools.

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[25] Murnane (1986: 148-149) lists several small-scale attempts to implement vouchers in the USA, all of which were severely compromised in implementation.

[26] Under the Federal scheme are paid to non-government schools (up to $2,600 per student) while the smallest subsidies are paid to government schools ($336-$500 per student). State governments operate parallel funding systems where the relative weight of the subsidies is reversed. States provide on average $4,500 per student in government schools and between $200-$2,000 per student in private schools (MCEETYA 1996: 36-38).

Seventy per cent of non-government schools will still have a price advantage over the remaining non-government schools through higher levels of government funding. Non-government schools retain the power to select and reject students to a greater extent than government schools. The only vouchers covering the full cost of education provision are in the government school system. Competition between government schools remains restricted as most government schools are bound by open enrolment policies. Although the abolition of the New Schools Policy removes a barrier to competition between schools, the existing funding schemes would need to be changed radically for the Howard government to claim it has created an education market that will improve school performance.

Conclusion

Governments have never provided sufficient resources to fund a mass education system in Australia, always relying on the private sector to bear a proportion of the costs. This may have compromised the achievement of policy objectives such as mass participation and high standards of education provision. Although governments took over schools for the purpose of making education universal, they only achieved this at the primary school level. For most of this century, the completion of secondary schooling and access to university has remained primarily a private investment. This situation began to change after the Second World War when secondary participation rates increased and the provision of teaching scholarships broadened access to universities. But when the cost of the post-war participation boom placed too much pressure on public budgets, governments opted to assist private providers to bear some of the cost. However, the fiscal benefits of providing subsidies to expand private school enrolments have declined as the level of subvention in non-government schools funding has increased.

The Commonwealth's involvement has strengthened the role of the private sector in school education provision, particularly at the secondary level. While the Karmel model for schools funding achieved its objective of reversing the drift of enrolments away from non-government schools, once this objective was achieved, the scheme facilitated the continuing expansion of the non-government sector. In spite of Commonwealth attempts to restrain private school growth on non-government schools through the New Schools Policy, the non-government schools sector continued to expand. In the 1980s, when school education experienced a participation boom at the senior secondary level, the quality of government schools declined in comparison to non-government schools. The changing quality of government secondary schools, coupled with a continuing improvement in the quality of non-government schools, provided incentives for students to transfer to non-government schools, particularly at the secondary level.

The basis for the Karmel funding scheme was the Australian Labor Party's platform that stated that all non-government schools should be funded "on the basis of need". The Federal government chose to interpret this policy in terms of the financial needs of schools (Karmel 1973). If the Labor Party's policy had been interpreted in terms of the needs of students, the nature and purpose of the funding scheme would have been different. A subsidy weighted according to the financial needs of families rather than the financial needs of schools, would have been more consistent with the Friedman model of weighted vouchers. Such a scheme would have enlarged parental choice and

enabled schools to compete for a wider range of students. Instead, the Federal government provided funding to non-government schools on the basis of the financial needs of the schools, rather than the students within them. This arrangement distorted the competition between service providers (both government and non-government) and created inequalities in the competition between schools.

Commonwealth government policy now aims to promote competition between all schools, in both the government and private sectors. As the quality of schools and sectors is influenced by the resources available, government funding remains a defining influence on the development of the private schools sector, and its relationship to public schools. Although competition between schools has the potential to improve efficiency in service provision, the Federal government's funding framework distorts competition between Australian schools. Non-government schools are unequal in terms of the level of funding they receive from government. Government schools have less power over student selection than non-government schools. The subsidies for private schools are not weighted according to student characteristics or parents' capacity to pay. Policies to promote competition between schools in Australia are compromised by the different funding arrangements for each sector and the division of funding responsibilities between two levels of government. Competition and choice cannot be effective policy instruments until the funding system for public and private schools is determined within a single policy framework. It is unlikely that such a framework could be devised when the funding responsibilities for public and private schools remain split between two levels of government.

Chapter 5

Reasons for the Commonwealth to withdraw from schools funding

Introduction

Although the Commonwealth government has been involved in schools funding for thirty years, this chapter questions whether Federal intervention was necessary to improve the quality of Australian schooling. Although the provision of Federal funding improved the quality of non-government schools, Commonwealth involvement has been a barrier to the development of a consistent funding policy for all schools. The previous four chapters have highlighted the anomalies created by Federal involvement in schooling and the difficulties in achieving accountability for Commonwealth expenditure. In this chapter, I will present an argument for the Federal government to withdraw from schools funding, as well as discussing the obstacles to such a reform. While current SPPs could be transferred to untied Financial Assistance Grants without diminishing the Commonwealth's role in national schools policy, the main obstacle to reform would be the possible financial impact of such a transfer on non-government schools.

1 Federal financial relations in Australia

On a general level, the argument for reducing the level of total Specific Purpose Payments is to grant the States more flexibility in the management of their budgets. School education is a clear case of Commonwealth intervention in an area that remains the Constitutional policy responsibility of State and Territory governments. It is only possible for the Commonwealth to intervene in schooling because the Australian Federal government raises more money than it spends on its own policies and programs while the States raise insufficient resources for their own needs. The Commonwealth therefore returns some forty per cent of its revenue from taxation to the States and Territories in the form of financial assistance. Section 96 of the Constitution provides the legal basis for these transfers by enabling the Commonwealth to "grant financial assistance to any State on such terms and conditions as the Parliament thinks fit". The Commonwealth provides financial assistance to State and Territory governments via two principal funding mechanisms: General Revenue Assistance and Specific Purpose Payments (SPPs).

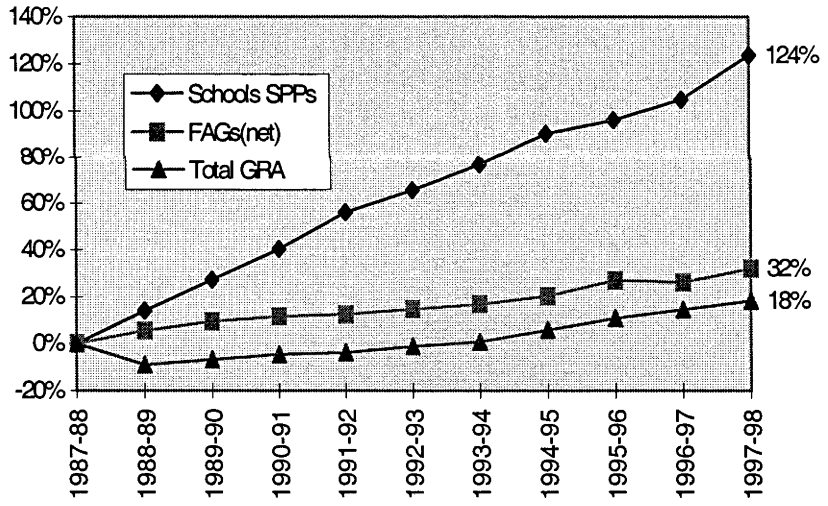
1.1 General Revenue Assistance and Specific Purpose Payments (SPPs)

General Revenue Assistance – consisting primarily of Financial Assistance Grants (FAGs) – is provided by the Federal Treasurer to State Treasuries to be used as States' own-purpose outlays. Financial Assistance Grants are called "untied grants" because the States are free to allocate the money as they wish. The amount that each State receives through FAGs is determined by a fiscal equalisation formula developed by the

Commonwealth Grants Commission every five years. The purpose of fiscal equalisation is to compensate States which would have difficulty raising sufficient revenue from their own sources to provide the same standard of service as other States in the Commonwealth. In 1997-98, a total of $16.8 billion will be provided as General Revenue Assistance, of which $16.1 billion is Financial Assistance Grants (*Commonwealth Budget Paper* No. 3, *1997-98*: 24)[1].

Specific Purpose Payments (SPPs) are allocated by Commonwealth portfolio Ministers and represent Commonwealth intervention in policy areas that are the Constitutional responsibility of the States. As the Commonwealth specifies how these grants will be spent by the States, SPPs are called "tied grants". In 1997-98, a total of $18.1 billion will be allocated to the States under SPPs. The education and health portfolios account for the bulk of Specific Purpose Payments. Over $7 billion is spent on Education, $5.5 billion on Health, and approximately $1 billion each on Housing, Social Security, Transport, and Local government. Within the Education budget, $3 billion is spent on Higher Education and Research, and $3.6 billion is spent on schools (*Commonwealth Budget Paper 1997-98* No 3: 40-85).

Figure 5.1 Escalation of current outlays on General Revenue Assistance, Financial Assistance Grants and Specific Purpose Payments for Schools, 1987-88 to 1997-98.



Notes: Schools data include current expenditure on recurrent grants, targeted programs and aboriginal education. Capital funding is excluded from all categories because the data are not comparable. The GRA and FAGs totals are net of the States' fiscal contributions in 1996-97 and 1997-98.

Sources: Commonwealth Budget Papers various years; Department of Finance (1997) *Catalogue of Specific Purpose Payments to the States and Territories 1996-97.*

The total level of Specific Purpose Payments has risen steadily in recent years, from $16.6 billion in 1993-94 to $18 billion in 1997-98. Over the past twenty years, SPPs have increased as a percentage of total Commonwealth payments to the States by around seven percentage points. Federal Treasury attributes this, in part, to the "relatively generous escalation arrangements which have applied to SPPs compared to general

[1] Excluding State and Territory fiscal contributions.

purpose payments"(*Commonwealth Budget Papers 1997-98* No. 3: 39). For example, total current SPPs for schools have increased by 124 per cent over the past ten years, while total current general revenue assistance has increased by only 18 per cent, and Financial Assistance Grants have increased by 32 per cent, as illustrated in Figure 5.1.

The Commonwealth must use Section 96 to fund schools because education is a residual State power. In a 1946 referendum the Federal government won the right to make provision for "benefits to students" under Section 51(23A) of the Constitution. This amendment provided a basis for the introduction of Commonwealth financial assistance schemes, and could potentially enable the Commonwealth to provide direct funding to higher education institutions and non-government schools. However, if the "benefits to students" power were ever used to fund government schools directly, it would probably be challenged in the High Court (Birch 1975). Commonwealth funding to both government and non-government schools is therefore paid to the States under Section 96 of the Constitution in recognition of the States' right to deliver schooling.

1.2 SPPs *to* and *through* the States

The conditions attached to SPPs vary in both degree and form and tied grants can be classified into two categories: SPPs *to* the States; and SPPs *through* the States. SPPs *to* the States are less tightly "tied" because the States are given operational responsibility for spending the grant, provided that they pursue the Commonwealth's specified policy objectives. Sixty per cent of all SPPs are paid *to* the States. Within the education portfolio, Commonwealth grants for *government* schools ($1.5 billion) are the only SPPs paid *to* the States.

When a Specific Purpose Payment is paid *through* the States, the grant is passed on to another body and the State government plays no policy role in distributing the money. State treasuries are simply used as "post-offices" through which the Commonwealth directs payments to another agency. SPPs *through* the States "are essentially Commonwealth own-purpose outlays with the States acting as the Commonwealth's agent" (*Commonwealth Budget Paper 1997-98,* No.3: 38). However, they have to be paid as Section 96 grants because the expenditure does not fall within the Commonwealth's constitutional jurisdiction. SPPs *through* the States are a rising proportion of total gross payments to the States from the Commonwealth. While the SPPs *to* the States have remained a constant proportion of total Commonwealth grants, SPPs *through* the States have increased from 14 per cent of total outlays to 20 per cent over the past two decades. With the exception of a relatively small allocation to local government, all SPPs *through* the States are within the Education portfolio. Commonwealth grants worth $3.8 billion for higher education and university research, and $2.1 billion for non-government schools are paid as SPPs *through* the States annually (*Commonwealth Budget Paper 1997-98,* No. 3*:* 39, 81-85).

1.3 The case for reducing Specific Purpose Payments (SPPs)

If the States had the capacity to raise sufficient income to meet their outlays, the Federal government would not need to return any income to the States, nor would it have the capacity to intervene in State affairs using Section 96 grants. Galligan argues that the

Commonwealth's revenue surplus makes it susceptible to pursuing 'good ideas' and to responding to interest group pressures for new policy initiatives in areas that are the responsibility of the States. "Its monopoly over income taxes gives the Commonwealth both the means and the inclination, because of the realities of politics and interest groups, to intrude into key policy areas that would otherwise be solely under State jurisdiction" (Galligan 1995: 31).

A high level of SPPs is undesirable because it interferes with the efficient delivery of State government services and creates confusion in accountability for public expenditure. The Federal government's National Commission of Audit cited the benefits of reducing the range of activities funded through Specific Purpose Payments as: clarifying the roles and responsibilities between levels of government; reducing the costs of unnecessary duplication in administration, consultation, negotiation and reporting between different levels of government; and removing avenues for cost-shifting between levels of government (Officer, 1996, p. x). This view is shared by the Productivity Commission which states "the high degree of Commonwealth control over taxation revenue enables it to extend its influence to State areas of responsibility, especially through tied grants. Among other things, this has contributed to confusion and duplication in roles and responsibilities" (1996: 176).

From a States' perspective, the high level of Commonwealth SPPs is at best unnecessary, and at worst intrusive and inefficient. The cost of duplication of administration and coordination in the payment of all SPPs is estimated to be at least $50 million a year – resources which might otherwise be spent on services (Noon 1991: 36). In terms of States' budgets, SPPs for government schools are irrelevant because they are included in the Commonwealth Grants Commission's fiscal equalisation formula for distributing untied grants. This means that "if a State gets relatively less assistance through Specific Purpose Payments, it receives relatively more general revenue assistance" (Noon 1991: 25). The exception is SPPs paid *through* the States, such as non-government schools funding, which produces a different fiscal outcome for non-government schools. Funding for non-government schools is effectively excluded from the fiscal equalisation calculations, so the amount States' receive through FAGs is not adjusted to recognise Commonwealth specific purpose payments to non-government schools.

As discussed in Chapter Four, the dual funding system for government and non-government schools impedes the process of rational policy development at the State level. For example, central issues in State education policy today relate to the promotion of diversity, autonomy, choice and competition in schools provision. As more government schools are given budgetary autonomy and are expected to raise an increasing proportion of their income from private sources, the division between public and private schooling has become increasingly blurred. State governments are implementing competition policies for schools which increase parents' choice (Caldwell and Hayward 1998). The Productivity Commission (1996) points out that the current regime for funding and delivering eduction services does not sit well with the principles of increased client choice and competition in service delivery. The role of the Commonwealth as the main funding provider to non-government schools reduces the scope of schools funding initiatives by State governments. While States are in theory

responsible for all schools, in practice, more than thirty per cent of students are in non-government schools which are funded on a different basis by the Federal government.

In the context these arguments, the Productivity Commission recommended that the Federal government should "reduce the significance of tied grants by broadbanding specific purpose payments and/or absorbing them into financial assistance grants" (1996: 177). In regard to schools, the National Commission of Audit recommended that funding for primary and secondary education should be the sole responsibility of State governments and that Commonwealth Specific Purpose Payments for schools should be transferred to untied Financial Assistance Grants (Officer, 1996: xii)[2].

2 Commonwealth funding for schools

It is understandable why auditors and independent agencies would recommend a reduction in SPPs because such a reform would be defensible on efficiency grounds alone. However the withdrawal of Federal involvement in schools funding should also be consistent with the achievement of Commonwealth policy goals. The following section will discuss Commonwealth interests in school education and the fiscal impact of Commonwealth involvement on government and non-government schools.

2.1 National policy objectives

The first goal of the *Common and Agreed National Goals for Schooling* is "to provide an excellent education for all young people, being one that develops their talents and capacities to full potential, and is relevant to the social, cultural and economic needs of the nation" (Australian Education Council 1989). In developing these goals, State and Territory governments agreed on the importance of education to the nation's social and economic development. There is a high degree of national uniformity in key policy areas such as compulsory school ages, curriculum, teacher qualifications, staff-student ratios and other issues relating to service standards and quality of provision. While the Commonwealth has a role in ensuring that the outcomes of schooling are in the national interest, this can be pursued with a few SPPs targeted to specific policy goals.

For most of this century, Federal involvement in Australian schooling was limited to a number of *ad hoc* initiatives to achieve national policy goals (Tannock 1969). This changed in 1969 when the Federal government commenced direct recurrent funding for schools. On the advice of the Karmel Committee, in 1974 the Federal government introduced a major funding initiative based around three components: current, capital and targeted grants.

General recurrent funding is the largest of all the Federal SPPs for schools but it does not seek to achieve any particular national educational objective. As it was introduced simply to raise the resource standards of schools, the policy goals of the program are deliberately broad (See Appendix Three). Recurrent SPPs are pooled with State resources in the funding of both government and non-government schools and form part of the basic operating expenditure of both sectors. This makes it impossible to monitor

[2] This recommendation was rejected by the Federal government (Kemp 1996b).

the use of the funds and the Auditor-General is prevented from conducting efficiency audits of Commonwealth expenditure. As discussed in Chapter Three, the capacity to monitor educational outcomes for recurrent expenditure is weaker than for other types of tied grants because of the lack of specific policy goals. States are simply required to provide information on student outcomes within an agreed information framework in the *National Report on Schooling*. As the Commonwealth recurrent grants program for government and non-government schools does not serve any specific national policy goal, and the grants are subsumed into schools' general operating budgets, recurrent SPPs for schools could be transferred to FAGs without undermining the national interest.

Commonwealth capital assistance for schools began in the early 1950s, when the Menzies government introduced tax concessions for private school buildings, followed by capital grants for science laboratories and school libraries in 1964 and 1968 respectively[3]. Capital grants are provided to systems and non-government school authorities as block grants and are occasionally linked to specific national priorities. However capital investment remains a useful policy instrument for promoting economic growth, and additional capital funding was provided for school buildings under the Federal government's *One Nation* economic statement in 1992 (*Commonwealth Budget Papers 1992-93*). Because capital funding has the potential to be used to pursue national policy goals, it should be retained as a Commonwealth SPP.

National goals are pursued most directly through Commonwealth targeted programs, which allocate resources to specific policy areas. To ensure that the grants are spent on Commonwealth policy goals, many targeted programs have been administered separately from State education programs for most of the past twenty-five years[4]. After the abolition of the Schools Commission, as State policies and Commonwealth policies became more consistent, targeted program funds were frequently combined with State government funding for the same purpose. In 1994, most of the older targeted programs were broadbanded into a National Equity Program, as an outcome of the Federal/State negotiations on fiscal reform. However, under the Broadbanded program, the Federal government established *separate* block grants for government and non-government schools, which completely excluded State and Territory governments from a policy role in distributing funds to non-government schools (DEET 1994).

Broadbanding means that the money for a group of programs is paid as one large SPP, under which the targeted programs assume the status of elements. The only difference to the previous menu of targeted programs is that the grant recipient has the freedom to move the resources between the program elements. While broadbanding has been suggested as a compromise solution by the Productivity Commission, it does not overcome the major problem associated with Federal involvement in schooling. The intrusive policy impact of Federal schools funding is not caused by overly prescriptive

[3] The rationale for providing capital grants for science laboratories in 1964 was partly in response to the successful Russian launch of Sputnik 1 in 1957 which led to widespread criticism of the quality of science education by academics, science teachers and members of the business community (Smart 1978, Ch.3).
[4] The Disadvantaged Schools Program, for example, was administered by regional committees of stakeholders such as parents, teachers and community members. Although the State Education Departments established the Committees, they only had one representative on them.

funding conditions, but rather the anomalies created by the different funding policies for each sector. Recurrent SPPs for government and non-government schools are already "broadbanded" in the sense that the recipients have the freedom to distribute the resources as they choose between schools. However this does not remove the undesirable policy impact of Commonwealth SPPs for schools, arising from the split in funding between government and non-government schools. Unless broadbanding gave the States flexibility to move resources between government and non-government schools, the policy would not remove the contradictions of the existing funding arrangements. As long as the Commonwealth retains the power to determine the resource levels for the non-government sector, the Federal government is preventing States from implementing common funding policies for all schools.

In 1994, at least a dozen targeted schools programs were not included in the broadbanded National Equity Program[5]. The retained programs focused on recent policy initiatives which the Federal Labor Minister was not prepared to hand over to the States and Territories. In 1997, the Federal Coalition Minister abolished the National Equity Program and re-grouped the targeted elements into five priority areas within a broadbanded framework[6]. Like his predecessor, the Federal Education Minister kept a number of recent initiatives – such as the National English Literacy Survey – under direct Commonwealth control.

The Commonwealth government has used broadbanding to withdraw from direct involvement in old policy initiatives which are too politically sensitive to abolish outright. However the targeted program remains a favoured policy instrument among Federal Education Ministers for the pursuit of national policy goals. Successive Federal Education Ministers have maintained the Commonwealth's tradition of *ad hoc* involvement in schools policy by keeping a small number of targeted programs within their control. As the handful of targeted programs are valued by Commonwealth Ministers, and their fiscal impact is relatively insignificant, it would be feasible to maintain Commonwealth involvement in targeted programs.

The Commonwealth has a mechanism in addition to targeted programs with which to pursue policy goals of national significance in education. In 1988, the Commonwealth government began to pursue national policy goals on a more cooperative basis, through the Australian Education Council. Collaborative policy development through the Council of Australian Governments (COAG) has been a hallmark of Australian Federalism during the 1990s (Painter 1998), but it has not been a successful vehicle for the reform of Commonwealth/State financial relations (see Chapter 2, Section 4). Although the cooperative approach has limitations in terms of monitoring performance

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[5] eg. School Languages, Education Centres, Projects of National Significance, Curriculum Development Projects, Gender Equity in Curriculum, Gender and Violence Project, Vocational Education in Schools, Australian Students Prize, Quality Schooling Program, National Professional Development Program for Teachers, Aboriginal Education Strategic Initiatives. Key Competencies (DEET 1994 *Commonwealth Programs for Schools 1994, Administrative Guidelines*).

[6] The five areas were Literacy, Languages, Special Learning Needs, School to Work and Quality Outcomes. The first three policy areas (Literacy, Languages and Special Learning Needs) were to be "included in one agreement for each of the three education sectors in each State and Territory" while the remaining two areas were "to be subject to separate contracts with funding recipients" (DEETYA 1997a: 2.80).

(see Chapter Three) the Ministerial forum has become accustomed to addressing national policy concerns raised by both Federal and State Education Ministers. In using the Ministerial forum for policy development, the Commonwealth has moved away from its previous methods of "purchasing" State cooperation through targeted programs. The co-operative approach is not reliant on the provision of Commonwealth funding, and it would continue to be a means of addressing national policy issues if the Federal government withdrew its direct involvement in schools funding.

The Federal government has always played a limited role in schools funding, in recognition of the constitutional right of the States to provide schooling. National priorities have been pursued through targeted and capital programs, and more recently through cooperative initiatives under the auspices of the joint Ministerial Council. As general recurrent funding does not achieve any specific national policy goals, the $2.9 billion of recurrent SPPs could be transferred to FAGs without affecting national policy outcomes. As targeted programs and capital programs remain useful in the pursuit of national policy objectives, the Federal government should retain the $700 million spent on targeted and capital programs as Commonwealth SPPs.

2.2 Trends in Federal outlays on schools

Specific Purpose expenditure on schooling is expected to increase to $3.9 billion by 2000-01 – a growth of 11 per cent since 1997-98. As indicated in Table 5.1, Commonwealth funding for government and non-government schools will increase at different rates. Funding for government schools is projected to increase by 6 per cent per student while funding for non-government schools will increase by 16 per cent per student.

The increase in per student outlays for non-government schools is mainly due to the Federal government's decision to abolish its New Schools Policy from January 1997 (Watson 1997). This decision removed restrictions on new non-government schools from accessing higher levels of Commonwealth funding. Previously, new non-government schools were restricted to Funding Categories 1-6, which provided assistance at a lower level per student than the higher categories (ie. 10, 11 and 12). With the abolition of the New Schools Policy, new non-government schools will have access to the higher funding categories and existing schools will be given opportunities for a funding re-categorisation. The increase in student outlays in non-government schools therefore reflects the larger number of schools expected to receive funding at Category 10 or higher[7].

The slower rate of increase in funding for students in government schools (6 per cent) is due to the Enrolment Benchmark Adjustment, introduced in the 1996-97 Federal budget. Through this offsetting mechanism, every new place in a non-government school will be funded by a cut of $1,712 from Commonwealth General Recurrent Grants to government schools the following year. In addition, the increased rate of transfer of students to non-government schools following the abolition of the New Schools Policy will also deliver savings from Federal General Recurrent Grants of about $406 per (non-

[7] The increase in non-government schools per capita outlays may also reflect real increases in the level of per capita funding for schools in Categories 10 to 12.

government) student. Both the Enrolment Benchmark Adjustment and the increased rate of student transfer will gradually erode the funding base of General Recurrent Grants for government schools[8]. The slower rate of growth in Federal current outlays on government school students is therefore to be expected.

Table 5.1 Commonwealth Specific Purpose Payments for schools 1996-97 to 2000-01 .

	1996-97	1997-98(e)	1998-99(e)	1999-00(e)	2000-01(e)	*Increase*
			Government Schools ($)			
Current	949m	960m	968m	970m	997m	
Capital	217m	218m	227m	234m	239m	
Targeted	248m	266m	243m	244m	245m	
Total	1,414m	1,444m	1,438m	1,449m	1,482m	
No. of Students	*2,221,475*	*2,205,194*	*2,196,104*	*2,192,032*	*2,187,649*	
Outlay per student	636	655	655	661	677	6%
			Non-government Schools ($)			
Current	1,772m	1,919m	2,056m	2,194m	2,292m	
Capital	109m	87m	91m	89m	94m	
Targeted	104m	106m	104m	108m	111m	
Total	1,985m	2,112m	2,251m	2,391m	2,487m	
No. of Students	*921,458*	*940589*	*963758*	*989437*	*992000*	
Outlay per student	2,154	2,245	2,336	2,417	2,507	16%

Note: inconsistencies in totals due to rounding.

Sources: Commonwealth Budget Paper 1997-98 No. 3; ABS Cat. No. 4221.0 *Schools Australia;* Hollway, D. A. (1996) "Submission on behalf of the Department of Employment, Education, Training and Youth Affairs (No. 102)" to Senate Legislation Committee review of the *States Grants (Primary and Secondary Education Assistance) Bill 1996*, Vol 3:19-30.

2.3 "Total Commonwealth-sourced funding" for schools

The different rates of projected Federal expenditure for government and non-government schools in the Federal *Budget Papers* (and reproduced in Table 5.1) are not consistent with the claims of the Federal Minister for Schools. In his 1997 Budget press releases, Dr David Kemp stated that:

> Over the next four years, total Commonwealth-sourced funding (specific purpose payments and financial assistance grants) is projected to increase by 17 per cent per government school student and 14 per cent per non-government school student.
> Kemp (1997a) "Funding Boost for Schools", Budget Press Statement, K22/97, May 13.

[8] According to the government's estimates, $178 million will be cut from General Recurrent Grants over the next four years under the Enrolment Benchmark Adjustment (Hollway 1996: 16). In addition, the Federal government will make a saving of $42 million against its forward estimates of expenditure on general Recurrent Grants because of higher levels of student enrolments in the non-government sector. In total, Federal outlays on General Recurrent Grants were expected to be reduced by $220 million over the next four years (Watson 1997).

Although Financial Assistance Grants are "untied grants", and are therefore not allocated to any specific purpose, the Federal Minister for Schools has included FAGs payments in his estimates of Commonwealth expenditure on schooling, implying that a fixed proportion of FAGs will be spent on schools. The Commonwealth has not earmarked any proportion of FAGs to be spent on schools and FAGs continue to be reported as untied grants in the Commonwealth Budget Papers[9]. Dr Kemp's rationale for including a proportion of Financial Assistance Grants in his estimates of Commonwealth outlays is based on the following reasoning: Commonwealth Financial Assistance Grants account for about 26 per cent of States' total revenue; therefore 26 per cent of what the States spend on schools can be attributed to the Commonwealth. On this reasoning, Dr Kemp doubled the amount of schools expenditure sourced from the Commonwealth (ie. $3.6 billion in SPPs plus $4 billion from FAGs).

As 24 per cent of State revenue is allocated to government schools, and 2 per cent is allocated to non-government schools, the Minister assumes that the allocation of the Commonwealth's attributed FAGs will be 24 per cent to government schools and 2 per cent to non-government schools (Hollway 1996: 9). To reach his conclusion about the increase in "total Commonwealth-sourced funding" over the next four years, Minister Kemp said that the attributed FAGs per student in government schools will increase by 20 per cent while the attributed FAGs per student in non-government schools will increase by only 8 per cent, as indicated in Table 5.2[10]. These trends "balance out" the effect of Federal SPPs, to create the illusion of more generous Commonwealth spending on government schools.

As State outlays per student in non-government schools are allocated on a per capita basis, the expected increase in non-government school enrolments should cause State outlays on non-government schools to increase. It is therefore likely that State expenditure on non-government schools will be higher than the 2 per cent of outlays that it was in the past. By holding the proportion of attributed FAGs constant at 2 per cent for non-government schools and 24 per cent for government schools, Dr Kemp did not allow for any change in the distribution of State outlays as enrolments in government schools decrease and non-government schools increase. The difference in the expected increase in attributed FAGs for government and non-government schools is simply the product of dividing a constant level of funding by a changed distribution of the student population.

For the Minister's assumptions to be correct, States would have to increase their outlays at the same rate as the attributed FAGs contribution – 20 per cent for government school students and 8 per cent for non-government school students. It is most unlikely that the States would allocate their resources in this manner. In recent years, the trend in State expenditure on government and non-government schools has been in the opposite

[9] Any Commonwealth intention to "earmark" a proportion of Financial Assistance Grants for schooling would invoke considerable protest from State Premiers.

[10] The final outcome for "total Commonwealth-sourced" funding for non-government schools differs by one percentage point from the Minister's projections because Dr Kemp's estimates are based on calendar years.

direction. State outlays on non-government schools have increased at a higher rate than State outlays on government schools as shown in Table 5.3 (see page 137).

Table 5.2 Projections of "total Commonwealth-sourced funding (specific purpose payments and financial assistance grants)", per student in government and non-government schools 1996-97 to 2000-01

	1996-97	1997-98	1998-99	1999-00	2000-01	*Change*
			Government Schools			
24 per cent of FAGs	3,704,544,000	3,874,560,000	4,041,166,080	4,214,936,221	4,396,178,479	**19 %**
No. of Students	*2,221,475*	*2,205,194*	*2,196,104*	*2,192,032*	*2,187,649*	*-1.5 %*
			$ per student			
Attributed FAGs	1668	1757	1840	1923	2010	**20 %**
Commonwealth SPPs	636	655	655	661	677	**6 %**
Total 'commonwealth-sourced, funding	2304	2412	2495	2584	2687	**17 %**
			Non-government Schools			
2 per cent of FAGs	308,712,000	322,880,000	336,763,840	351,244,685	366,348,207	**19 %**
No. of Students	*921,458*	*940589*	*963758*	*989437*	*1,015,351*	*10.1%*
			$ per student			
Attributed FAGs	335	343	349	355	361	**8 %**
Commonwealth SPPs	2,154	2,245	2,336	2,417	2,507	**16 %**
Total "commonwealth-sourced" funding	2,489	2,589	2,685	2,772	2,868	**15 %**

Notes: These tables do not take into account the impact of the fiscal contributions that States agreed to return to the Commonwealth as a contribution to its deficit reduction program. These payments will be $619m in 1996-97, $640m in 1997-98, and $300m in 1998-99.

Sources: Commonwealth Budget Paper 1997-98 No. 3; ABS Cat. No. 4221.0 *Schools Australia;* Hollway, D. A. (1996) "Submission on behalf of the Department of Employment, Education, Training and Youth Affairs (No. 102)" to Senate Legislation Committee review of the *States Grants (Primary and Secondary Education Assistance) Bill 1996*, Vol 3:19-30; MCEETYA (1996) *National Report on Schooling in Australia, Statistical Annex,* Carlton, Victoria: Curriculum Corporation.

For the Federal Education Minister to count a proportion of FAGs as Commonwealth outlays on schools does not accurately portray the fiscal impact of Federal policies for government and non-government schools. The only accurate estimate of Commonwealth outlays on schooling is the amount provided as a Specific Purpose Payment in the Commonwealth Budget Papers. These data demonstrate that over the next four years, Commonwealth expenditure on government schools will increase by 6 per cent per student while expenditure on non-government schools will increase by 16 per cent per student. The different funding outcomes for each sector reflect the Federal government's recent policy decisions.

The myth of "total Commonwealth-sourced funding" exploited the confusion created by the division of funding responsibilities between the Federal government and the States. Minister Kemp used the complexity of the funding arrangements to claim that the Commonwealth would be spending double what it is actually spending on schools and that the impact of its policies would be the opposite to the Federal government's intentions. These distortions add weight to the argument for schools to be funded by one level of government.

3 Impact of Commonwealth current SPPs on schools

From the ratio of State expenditure to Specific Purpose Payments, Noon concludes "there is no evidence to suggest that States' expenditure in these program areas would fall below the levels demanded by the community if funding was via unconditional grants rather than Specific Purpose Payments" (Noon 1991: 29). This statement will be examined in regard to schooling.

3.1 Government schools

In 1963, State Premiers and Education Ministers demanded Commonwealth assistance of $42 million in recurrent funding and $196 million in capital funding over the next four years to meet minimal teaching and building standards (Spaull 1987)[11]. The policy rationale for this request was to alleviate a perceived funding crisis in government and non-government schools – which was attributed in part to the effect of vertical fiscal imbalance. It was believed that changes in the States' revenue-raising capability during and after World War 2 had hampered their capacity to meet the financial needs of schools.

> Australian fiscal federalism throughout the 1950s and 1960s was . . . characterised by chronic vertical fiscal imbalance between the Commonwealth and the States, one consequence of which was that most state functions could only be performed adequately if they were the subject of additional Commonwealth financial assistance in the form of specific purpose grants (Mathews, 1983, p.139).

Although Federal recurrent funding for government schools did not eventuate for another five years[12], between 1963-64 and 1971-72, States' recurrent outlays on government schooling increased by an average of 8.1 per cent per year, in real terms – more than double what the State education Ministers had said they needed from the Commonwealth (Karmel 1973: 4.30). In the 1970s, after the Commonwealth began funding schools, State expenditure continued to increase at a higher rate than expected. On the basis of data provided by State and Territory Education departments, the Karmel Committee recommended a level of funding that would improve the resource-base of government primary and secondary schools by 40 per cent and 35 per cent respectively by the target year of 1979[13]. Due to unexpectedly high inputs by State governments, the resource targets were achieved in most States by 1976. Between 1971 and 1981, State outlays per student increased by an average of 5 per cent per annum in real terms (ABS 1996).

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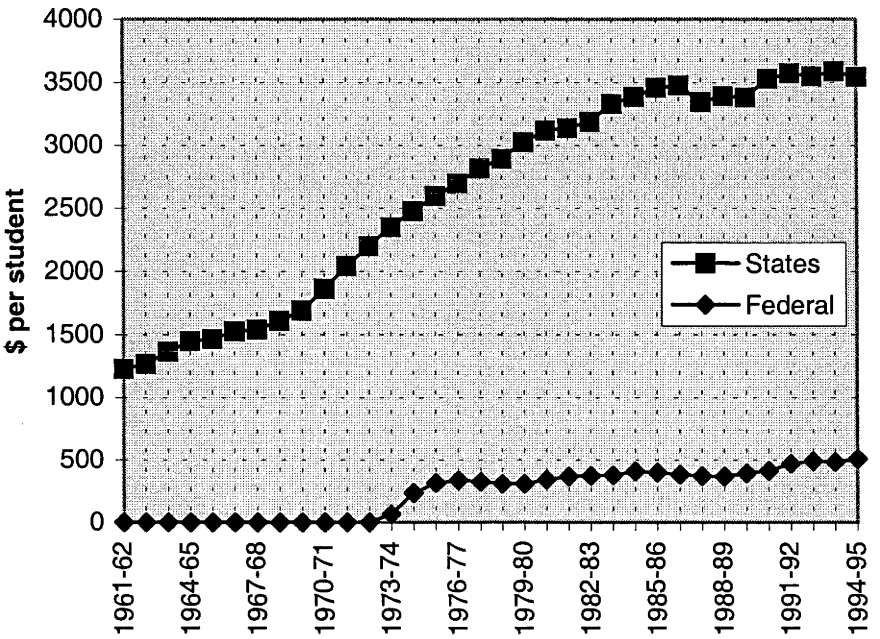
[11] The need for resources was attributed to the pressure of post-war baby boom enrolments and the rising rate of secondary school participation. Between 1952 and 1962, enrolments in government primary schools increased by 37 per cent and in secondary schools by 139 per cent. (Mathews 1983: 137).

[12] While the Commonwealth provided capital assistance to government schools between 1964 and 1968 it amounted to less than $30 million over the four years (Commonwealth *Budget Papers 1972-73*: 52-53).

[13] The Committee had circulated a detailed financial questionnaire to the Education Departments and non-government school authorities which was "the main source of statistical information for the assessment of school needs" (Karmel 1973: 1.13).

During the 1980s, the rate of increase in State expenditure per student slowed down and the Federal government exercised restraint in the payment of Financial Assistance Grants (FAGs). The low rate of increase in State outlays parallelled fiscal restraint at the Federal level, and schools no longer received windfall funding increases from either level of government. The total per capita resources of government schools increased by an average of 1.3 per cent per year between 1981 and 1991. These trends are illustrated in Figure 5.2.

Figure 5.2 Outlays per student in public schools by source, 1961-62 to 1994-95 (constant prices)



Notes: The data excludes expenditure on preschools, and includes expenditure on special education, targeted programs and joint programs. Commonwealth expenditure on joint programs is attributed to government schools. The data are drawn from all Australian States excluding the Australian Capital Territory and the Northern Territory. Expenditure is expressed in constant price deflated by GNFP(e).

Sources: Commonwealth Budget Papers, ABS Cat. No. 4221.0 *Schools Australia*; ABS Cat. No. 5510.0 *Expenditure on Education , Australia*; ABS (1996) "Expenditure on Schools" Unpublished Data.

State governments do not appear to need Federal assistance to meet their responsibilities to government schools. Over the past three decades of rapid enrolment growth, States have demonstrated their capacity to finance the continued expansion in government schools. With the benefit of hindsight, there appears to have been little justification for the States' historical claim that a financial crisis in government schools warranted Federal government intervention.

In providing recurrent grants, the Federal government also aimed to reduce the variation in the level of resource use on government schools between States. As discussed in Chapter Two, in 1973, the Karmel Committee recommended differential funding for secondary schools on the basis of significant differences in resource-use. Karmel recommended that States with lower resource-use indices for secondary school systems be allocated larger grants as a short term measure to overcome the inequalities in

resource use (Karmel, 1973: 6.13, 6.35). Over the next twenty years, the Federal government was not successful in reducing the level of inequality in resource use between States. The Commonwealth's involvement has had no apparent impact on the variations in resource use[14].

The Commonwealth Grants Commission makes recommendations to the Federal government concerning the distribution of general revenue assistance to the states on the basis of a fiscal equalisation formula that assesses the relative "disabilities" endured by each State that might affect the State's capacity to provide a uniform standard of services[15]. In determining its per capita relativities for the distribution of untied grants, the Commission takes into account the provision of most current SPPs. Commonwealth SPPs for government schools are "included" in the Commission's assessment of State expenditure needs[16]. This means that money received through SPPs for government schools are treated as no different from the provision of general revenue assistance. In other words, the Financial Assistance Grant is adjusted to take into account SPPs received for government schools. Thus while Federal SPPs for government schools are *paid* on a uniform per capita basis, the Grants Commission's "inclusion" method overrides any intentions by the Commonwealth portfolio Minister and ensures that the States receive differential funding (*Commonwealth Budget Papers 1997-98* No. 3: 19).

The neutralising impact of the Grants' Commission's equalisation processes is viewed rather optimistically by the Federal Treasury:

> In any event, it is not necessarily the case that the Commonwealth's policy objectives will be foregone where an SPP's distribution may be overridden over time in a financial sense. The objective of an SPP may be achieved by the fulfilment of the related conditions which the Commonwealth has agreed with the State receiving the payment *(Commonwealth Budget Papers 1997-98,* No. 3: 20).

In Commonwealth schools funding, there are no specific conditions attached to the payment of General Recurrent Grants. The primary objective of Commonwealth recurrent grants is to "help government schools with the recurrent costs of school education" (Appendix Three). The fact that States receive a financial outcome that is no different to what they would receive if the money were paid through FAGs means that even the most basic of Commonwealth policy goals (ie. the provision of "financial assistance") may not be achieved.

The impact of the Federal government's recurrent funding on total resources for government schools has not been significant. The Commonwealth remains a minor

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[14] By 1976, the range of values for secondary systems had increased to 22 points (compared to 19 in 1972) and the range for primary schools had increased to 19 points from only 6 points in 1972. The Commonwealth Schools Commission therefore abandoned the differential funding model to introduce a uniform per capita grants system in its next triennium. By 1994, the range for secondary schools had increased to 27 points and the range for primary schools remained almost the same at 22 points. (see Chapter Two, Section 3.1)

[15] In 1997-98, 7.4 per cent of the pool of general revenue payments will be redistributed as a result of the application of the Commission's relativities, compared to an equal per capita distribution (Budget Paper No. 3: 17).

[16] SPPs for government schools and non-government schools are treated in different ways.

funding partner and its financial objectives are neutralised by the Grants Commission's fiscal equalisation formula. The effect of the Enrolment Benchmark Adjustment – which will finance growth in the non-government sector from reductions in government school recurrent grants – will gradually erode the Federal government's financial contribution to government schools. Due to the efforts of State governments, Federal recurrent funding of government schools today amounts to less than fifteen per cent of total outlays on government schools. The overall financial position of government schools would not be very different today if the Federal government had never become involved in the recurrent funding of Australian schools.

3.2 Non-government schools

The provision of Federal funding to non-government schools was in response to a funding crisis in the non-government sector. The effect of the post-war baby boom, increasing rates of secondary school participation and a decline in the role of religious orders meant that most non-government schools were struggling to provide education services at a standard comparable to government schools in the 1960s (Smart 1978). The non-government sector's share of total school enrolments declined steadily throughout the decade to reach a low of 21 per cent in 1976. Following the introduction of Federal and State government funding in 1975, the non-government sector's enrolment share increased to reach 29.7 per cent in 1997. At least 300,000 additional students are now attending non-government schools (ABS Cat. No. 4221.0).

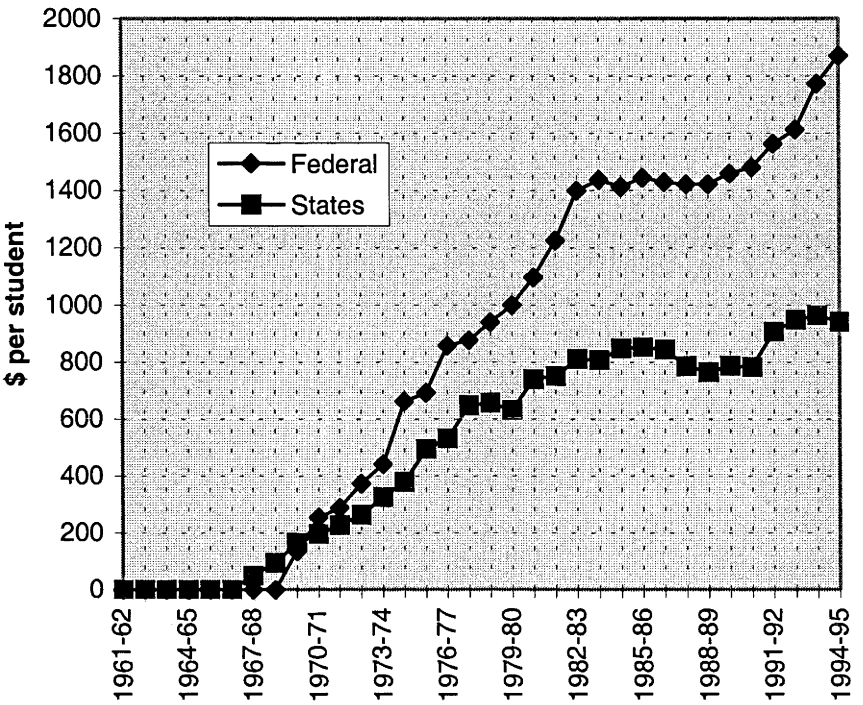
The proportion of non-government schools' total income sourced from government has increased significantly over the past twenty-five years. In Catholic primary schools, which account for 73 per cent of total enrolments, the level of subvention has increased from 48 per cent in 1974 to 78 per cent in 1994 (see Appendix Two). The major source of the growth in resources to non-government schools has been the Commonwealth government. While State governments made steady increases in their contributions to non-government schools, they could not match the rapid increases in per capita funding provided by the Federal government, as illustrated in Figure 5.3.

Non-government schools may have been beneficiaries of vertical fiscal imbalance because their major source of funding was the Federal, rather than State government. As the major funding provider for the smaller schools sector, the Commonwealth could more easily accommodate funding increases for non-government schools within its budget. Total Federal SPPs on schools are only three per cent of the Federal budget and the non-government sector receives the largest proportion of these outlays. The Commonwealth-funded expansion of the non-government sector did occur with the support of State education authorities. In the 1950s, many State Education Ministers supported the provision of subsidies for non-government schools[17]. In 1967, State governments were the first to provide direct funding for non-government schools, under

[17] State governments' reluctance to provide direct funding to private schools was partly due to the fact that an earlier "State Aid" debate lingered in their institutional memory. Following the controversy of the 1860s State governments had emerged as defenders of schools system that were "universal, secular and free". Unravelling this legislative charter to provide funding for non-government schools would have opened a political Pandora's box for State politicians and most State Education Ministers seemed keen to avoid it in the 1950s. The unwritten consensus seemed to be that the second "State Aid" debate should be an issue for the Federal government (Spaull 1987: 59-82).

both Labor and Coalition governments. When higher levels of Federal recurrent assistance for private schools were introduced in 1974, State governments continued to contribute grants to non-government schools, equal to about half the level of Commonwealth assistance. There has never been any question about State governments' support for the policy of providing funding for non-government schools.

Figure 5.3 Outlays per student in non-government schools by source, 1961-62 to 1994-95



Notes: The data exclude expenditure on preschools, and includes expenditure on special education, targeted programs and joint programs. Commonwealth expenditure on joint programs is attributed to government schools. The data are drawn from all Australian States excluding the Australian Capital Territory and the Northern Territory. Expenditure is in constant prices deflated by GNFP(e).

Sources: Commonwealth Budget Papers, ABS Cat. No. 4221.0 *Schools Australia*; ABS Cat. No. 5510.0 *Expenditure on Education , Australia*; ABS (1996) "Expenditure on Schools" Unpublished Data.

Administrative responsibility for non-government schools remains with State and Territory education authorities because only State governments have the power to register non-government schools. In 1985 State Ministers supported the introduction of the Commonwealth's New Schools Policy guidelines that restrained the growth of new non-government schools (Spaull 1987: 266). In 1997, States did not oppose the Federal government's decision to abolish the New Schools Policy guidelines. State registration requirements have always imposed fewer restraints on the growth of non-government schools than the Federal government's New Schools Policy. Although most States have reviewed their registration requirements since the abolition of the New Schools Policy, their arrangements are not as restrictive as the former Federal guidelines (McKinnon 1995a).

If the funding that the Federal government allocates to non-government schools through SPPs had been provided to the States through General Revenue Assistance, it is

impossible to say definitively whether the funding situation of non-government schools would be different today. On the one hand, State governments have always supported the Federal government's policies towards non-government schools with their own-source financial contributions. As illustrated in Table 5.3, State governments have increased their own-source outlays on non-government schools at a higher rate than outlays on government schools since 1985[18]. A State government (Victoria) was the first to provide recurrent support for non-government schools in 1967 and State registration policies for non-government schools have been more lenient than the Federal government's guidelines under the New Schools Policy. In recent times, State governments' policies about increased competition have strengthened their commitment to private school provision (see Calwell and Hayward 1998).

On the other hand, private schools have clearly benefited from the split in funding responsibilities between the Federal and State governments. Non-government schools have received most of their financial assistance from a level of government which is not responsible for mass education provision. State governments' lenient registration requirements and supplementary funding policies for non-government schools could have been motivated solely by cost-shifting. If so, their commitment to expanding non-government provision may lessen now that the potential for further cost-shifting has been removed by the Enrolment Benchmark Adjustment. Under the Commonwealth funding arrangements the bulk of private school funding is quarantined from State government budgetary processes. If States were responsible for funding all schools, the claims of non-government schools would be considered against the claims of government schools in the same policy forum. The sheer size and influence of the government school sector at the State level would provide a strong counterbalance to the influence of non-government schools. It is unlikely – though not inconceivable –that recurrent grants for private schools would have increased to the same extent, if the funding policy for both public and private schools had been determined at the same level of government.

The impact of Federal intervention in schooling has been different for private schools than for government schools. Non-government schools have received increasing levels of funding which have been quarantined from State education policy because SPPs for non-government schools have been paid *through* the States. While government schools have barely noticed the impact of Federal intervention, non-government schools are dependent on high levels of Federal SPPs. Nevertheless, Federal funding for non-government schools occurred with the active support of State and Territory governments. Commonwealth involvement has clearly had a marked effect on the financial status of non-government schools, however the outcome could have been similar – albeit of a lesser magnitude – if private schools' funding had remained the responsibility of the States.

[18] Although it is an unlikely scenario, if the States had provided increases in non-government school per capita grants at the same dollar value as annual increases to State schools funding since 1969, State funding for non-government schools would be *higher* today than Federal funding for non-government schools

4 The transfer of current SPPs for schools to untied grants

As the impact of current SPPs for schools has been quite different for government and non-government schools, the implications of abolishing current SPPs for schools are different for each sector. Although the transfer of current SPPs to FAGs would restore State government authority over schools funding policy, State governments would continue to support the role of the private sector in schools provision. In the short term, however, the immediate fiscal impact of moving to the Grants Commission's distribution formula for untied grants would make it harder for the two largest States to maintain current funding levels for non-government schools.

4.1 Policy implications

In 1936, the establishment of the national Ministerial Council indicated the interest of State and Territory Ministers of Education in working together on common issues without direct Commonwealth involvement[19]. Although the Council's agenda has been diverted by changes in membership, political opportunism and unexpected actions by the Commonwealth government, it has remained focused on issues of national policy or common interests (Spaull 1987). The level of uniformity in State education policies today implies a commonality of purpose that is stronger than the minor policy differences between jurisdictions. None of this uniformity has been "purchased" by the Federal government through tied grants. The level of State and Territory participation in national policy forums and Ministerial Councils would therefore not diminish if the Federal government abolished its recurrent funding program for schools.

Table 5.3 States' own-source outlays per student in government and non-government schools, 1985-86 to 1994-95 (constant prices)

$	1985 -86	1986 -87	1987 -88	1988 -89	1989- 90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95	Increase
Government schools	3456	3474	3344	3392	3381	3528	3573	3548	3587	3543	87 2.5%
Non-government schools	858	848	790	769	791	788	913	956	972	949	91 10.6%
Ratio	*4.0*	*4.1*	*4.2*	*4.4*	*4.2*	*4.5*	*3.9*	*3.7*	*3.6*	*3.7*	

Notes: The data exclude expenditure on preschools, and includes expenditure on special education, targeted programs and joint programs. Commonwealth expenditure on joint programs is attributed to government schools. The data are drawn from all Australian States excluding the Australian Capital Territory and the Northern Territory. Expenditure is in constant prices deflated by GNFP(e).

Sources: Commonwealth Budget Papers, ABS Cat. No. 4221.0 *Schools Australia*; ABS Cat. No. 5510.0 *Expenditure on Education , Australia*; ABS (1996) "Expenditure on Schools" Unpublished Data.

If current SPPs for non-government schools were returned to the States, it is unlikely that State education authorities would use their new responsibilities to undermine the funding position of the non-government schools sector. State policies regarding non-government schools have reflected and supported the Federal government's policies for over thirty years. While State governments have been unable to match the size of

[19] The Commonwealth government did not join the AEC until 1972.

Federal increases in non-government schools funding, the States have consistently supported the non-government sector with steady increases in State funding. Over the past decade, on average, State governments have provided increases in per student funding for both the government and non-government sectors at roughly equal dollar amounts, which has resulted in a higher rate of increase in State grants for non-government schools compared to government schools, shown in Table 5.3.

As a non-government school subsidy costs around twenty-five per cent less than a place in a government school, there are financial benefits for the States in maintaining a viable non-government schools sector. If schools funding were transferred to FAGs, States would continue to enjoy some savings from non-government school enrolments. With the introduction of the Enrolment Benchmark Adjustment (EBA) in the 1996-97 Federal Budget, funding for new non-government schools is now the financial responsibility of State governments. Under the Enrolment Benchmark Adjustment, Commonwealth funding for new enrolments in non-government schools will continue to be paid as an SPP *through* the States. However the Commonwealth's subsidy to new non-government schools will be fully offset by reductions in Commonwealth current grants for government schools. State governments now bear the *financial* responsibility for new non-government schools. Yet the Commonwealth retains control over funding *policy* for non-government schools. The transfer of Commonwealth recurrent funding to FAGs would give the States and Territories both *funding* and *policy* responsibility for non-government schooling.

4.2 Fiscal implications

The main impact of the transfer of non-government schools funding to FAGs would be that the resources allocated to the States would vary according to the Grants Commission's fiscal equalisation formula. Commonwealth SPPs for all schools are paid on a uniform per capita basis. Although the effect of tied grants to government schools is overridden by the Grants Commission, this is not the case with respect to non-government schools. Tied grants for non-government schools are paid *through* the States, so non-government schools in each funding category receive predictable levels of Commonwealth funding under the existing arrangements. While there is some variation in the level of grants paid by the States to non-government schools, it is smaller than that created by the Grants Commission's per capita relativities.

The data in Table 5.4 illustrate the impact of the transfer of current SPPs to FAGs on schools in Funding Category 10 – which encompasses 70 per cent of all non-government schools. The impact of the transfer on per capita grants to schools would result in the majority of non-government schools in New South Wales and Victoria incurring funding cuts of eight per cent. Non-government schools in Western Australia, Tasmania and the Northern Territory would receive windfall funding increases if the money were passed on by State governments.

The calculations in Table 5.4 are based on the assumption that the total pool of current funding would be re-distributed on the basis of the Grants Commission's relativities and that the fiscal outcome would be passed on to the schools. It is only a rough indication of what the fiscal outcome would be and does not take into account any compensatory

measures that might be taken by State governments. Nor can we assume that the funding increases received by the smaller States would be passed on to their schools. Under the Grants Commission's fiscal equalisation formula, there would be clear "winners" and "losers" among the States, which could disadvantage the sixty-one per cent of non-government school students located in New South Wales and Victoria if the funding shortfall was passed on by the State governments.

Table 5.4 Impact of the transfer of current SPPs to FAGs on non-government schools in Funding Category 10, by State ($ per student)

	NSW	VIC	QLD	SA	WA	TAS	ACT	NT
				State grant				
Primary	709	623	679	698	698	654	749	957
Secondary	1101	975	1099	1185	1156	1079	1095	1140
	Commonwealth grant paid as SPPs *through* the States							
Primary	1620	1620	1620	1620	1620	1620	1620	1620
Secondary	2367	2367	2367	2367	2367	2367	2367	2367
	Commonwealth grant if paid to the States as FAGs							
Relativities	*0.87819*	*0.87835*	*1.03737*	*0.99589*	*1.191*	*1.54974*	*0.88435*	*4.89353*
Primary	1423	1423	1681	1613	1929	2511	1433	7928
Secondary	2079	2079	2455	2357	2819	3668	2093	11583
	Total grant to Primary schools							
Present	2329	2243	2299	2318	2318	2274	2369	2577
After transfer	2132	2046	2359	2311	2627	3165	2182	8885
Difference	**-197**	**-197**	**+61**	**-7**	**+309**	**+891**	**-187**	**+6307**
	Total grant to Secondary schools							
Present	3468	3342	3466	3552	3523	3446	3462	3507
After transfer	3180	3054	3555	3543	3975	4747	3188	12723
Difference	**-288**	**-288**	**+88**	**-10**	**+452**	**+1301**	**-274**	**+9216**

Notes: The Queensland and South Australian grant levels are derived from estimates. The grant levels are based on funding in 1994, the latest year for which published State data are available.

Sources: MCEETYA(1996) *Annual National Report on Schooling 1994, Statistical Annex*; *Commonwealth Budget Papers 1997-98* No. 3.

5 Prospects for reform

Reducing the level of Commonwealth Specific Purpose Payments (SPPs) to the States has been raised in COAG as a means of increasing the budgetary flexibility of State and Territory governments. A reduction in the level of SPPs has been identified by the Productivity Commission and various government auditors as an important step in improving efficiency and accountability for government services provision. Yet in spite of the commitment among Heads of Government to fiscal reform, no agreement has ever been reached on how to reduce the level of Specific Purpose Payments to the States. While Commonwealth expenditure on school education is an obvious target for reform, it has been politically difficult for governments to consider the transfer of SPPs for schools to Financial Assistance Grants (FAGs) in any area other than government schools.

Given the financial problems in moving SPPs to FAGs, it has been suggested that current funding for government schools should be transferred to untied grants while non-government schools funding be retained as a Specific Purpose Payment[20]. To retain non-government schools funding as a Commonwealth SPP would exacerbate the confusion that already exists in the allocation of resources to schools. The separation of government and non-government schools by funding source would make it even more difficult for States to manage policy issues such as competition and choice with regard to both sectors and would further diminish accountability for Commonwealth schools funding.

COAG could consider the fall-back option of broadbanding the existing Commonwealth schools funding programs. However, broadbanding of existing funding programs would simply entrench the existing arrangements unless the funding for government and non-government schools was combined in the one broadbanded program. If the allocations for each sector are kept separate, it would be scarcely different to the existing arrangements and would not remove the undesirable consequences of vertical fiscal imbalance. The policy responsibility for deciding resource levels would remain with the Commonwealth. The Commonwealth would also be under constant pressure to split the grant between the sectors either formally or informally, thus denying States any real budgetary flexibility or policy responsibility in regard to non-government schools.

As described in Chapter Two, when a serious attempt was made to transfer SPPs for schools to FAGs in the early 1990s, the political power of the non-government school stakeholders ensured that SPPs for non-government schools were exempt from consideration. State and Territory Education Ministers were also reluctant to pass up the degree of independence that Commonwealth SPPs gave them from State budgetary processes. The transfer of recurrent funding for schools to untied grants would improve the prospects for consistent policy development across both sectors at the State and Territory level of government. While States would ensure the continued viability of private schools, their funding would be determined in the same budget context as government schools. It is likely that private schools funding would be subject to the same funding restraints that have applied to the State school sector.

If the present arrangements continue, SPPs for schools will become an increasing proportion of total Federal grants to the States and the prospects for fiscal reform will become even more remote. It must be recognised that the Grants Commission's fiscal equalisation formula creates problems for any agency seeking to convert SPPs into untied Financial Assistance Grants. If Heads of government were to transfer current SPPs for schools to FAGs, the most practical approach would be a phased transfer that saw current SPPs for schools gradually merged with FAGs over an agreed period of time. This would soften the fiscal impact of the decision on State budgets and on non-government schools in Victoria and New South Wales.

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[20] In their November 1991 *Communique*, Premiers and Chief Ministers adopted a proposal from the AEC's Schools Working Party that SPPs for government schools should be transferred to FAGs and that a tied grant should be retained to fund non-government schools (*Communique* 1991, Nov: 18-19). In the same document, however, the Heads of Government reiterated that schools were the responsibility of State governments. The decision to transfer government schools funding to FAGs did not proceed, although it remained on the COAG negotiating table (see Chapter Two).

Conclusion

The Commonwealth could increase the budgetary flexibility of State governments by converting $3 billion in current SPPs for schools to untied Financial Assistance Grants, which would reduce the level of Commonwealth SPPs by sixteen per cent. The transfer of current schools funding to FAGs would result in greater clarity and accountability in the funding of both government and non-government schools. Government Ministers would no longer be able to pass responsibility for outcomes to another level of government, nor to double their own-source outlays on the basis of fictional funding scenarios. States would obtain both policy and funding responsibility for all schools. Schools would benefit from more coherent policy development, particularly as education policy and funding issues could be discussed with reference to both the government and non-government sector.

To the extent that national policy interests warrant Commonwealth involvement, national objectives can be pursued through the retention of $700 million of capital and targeted programs as Specific Purpose Payments. National goals can also be pursued through co-operative Ministerial forums where State Education Ministers have demonstrated their willingness to consider national policy issues.

The clients most affected by the transfer of current SPPs to FAGs would be the non-government schools sector, which has benefited from generous levels of Federal financial assistance under SPPs paid *through* the States on a uniform per capita basis. While States would continue to safeguard to the viability of the non-government sector, the immediate fiscal impact of the Commonwealth's withdrawal might involve an eight per cent reduction in grant levels to almost two-thirds of non-government schools. Although a phase-in arrangement may mitigate the financial impact of the reform in the short-term, the non-government schools sector can be expected to oppose the withdrawal of Federal government involvement in recurrent schools funding.

Chapter Six

Improving public accountability for expenditure on Australian schooling

Introduction

In this concluding chapter I will discuss why it is important for the Commonwealth to be accountable for its expenditure on school education. Drawing on the previous chapters, I argue that accountability for public expenditure on schooling would improve if the Commonwealth withdrew from the recurrent funding of Australian schools.

1 Public accountability and schools funding

> As more and more emphasis is placed on a results-oriented and client-sensitive culture and on devolution, and as the environment of public sector management becomes more diverse and complex, the importance of effective accountability becomes correspondingly greater (OECD 1995: 37).

Public accountability is about "giving an answer for the way in which one has spent money, exercised power and control, mediated rights and used discretions vested by law in the public interest" (Waterford 1991). Traditionally, Ministers were responsible to parliament for the impact of their policies, and bureaucrats were accountable for the way in which they implemented them. With the advent of "new managerialism" in the public service, the concept and practices of public accountability have changed (Uhr 1991: 290). The roles of policy and administration are not so clearly separate and decision-making power is increasingly devolved to public sector managers. In return for increased autonomy, public sector managers are expected to be more accountable to the community for the results of the programs they manage (Uhr 1998: 164-66). Public accountability is now concerned with " the obligations of persons and authorities entrusted with public resources to report on the management of such resources and be answerable for the fiscal, managerial and program responsibilities that are conferred" (*Tokyo Declaration of Guidelines on Public Accountability* 1986).

During the 1990s, the Australian public sector has been characterised by an increase in the level of collaboration between Commonwealth and State governments on policy issues. Propelled by the issue of micro-economic reform, "collaborative executive federalism" has gained ascendancy over adversarial and competitive elements of parliamentary federalism (Carroll and Painter 1995: 15). Yet inter-governmental forums have been criticised for being less accountable than individual Ministers or governments. Ministerial Councils exercise a form of power and authority that is cut off from conventional accountability mechanisms such as parliamentary scrutiny (Pendal 1995). "The decisions made in Ministerial Councils blur the lines of responsibility of individual ministers and participating governments to their parliaments" (Saunders 1985: 11). Saunders observes that the information provided to parliament about inter-

governmental affairs is less adequate and less systematically scrutinised than normal government activities (1985: 13).

Since Federation, there has been a steady increase in the level of financial transfers from the Commonwealth to the States in terms of both untied grants and specific purpose payments (Galligan 1995: 227). It is more difficult to pursue public accountability for expenditure when funds are transferred between levels of government within a Federal system (Saunders 1985, 1986, Else-Mitchell 1986). Commonwealth transfers are not appropriated by State parliaments, and often by-pass normal parliamentary procedures of scrutiny and review. Tied and untied grants are paid through a variety of mechanisms, most of which fall outside the State budget process. "The result is that transfers do not fit neatly into the cabinet system, the budget process, or any other established financial procedures" (Saunders 1986: 17). As "almost all our rules of public law and political practice have been devised for a unitary system of government operating within a single jurisdiction", accountability mechanisms are weaker in respect of inter-governmental grants (Saunders 1985: 7).

For all types of inter-governmental transfers, State and Territory governments are less accountable to their parliaments for the expenditure of money transferred from the Federal government through SPPs than they are for untied grants – which are paid to State Treasuries (Saunders 1986: 17). As Section 96 grants are paid through a variety of mechanisms, it is difficult for Parliament or parliamentary committees to monitor program expenditure (Else-Mitchell 1986: 7). State and Territory portfolio Ministers are granted a degree of independence from State budgetary processes by the payment of specific purpose grants from the Commonwealth.

Saunders identifies three types of accountability which apply to inter-governmental transfers:

1. the ability to dictate and scrutinise expenditure in detail, in a way that theoretically is possible when taxation and expenditure take place at the same level of government;
2. the ability to monitor the extent to which the broad purposes for which the funds are provided are met; and
3. the extent to which governments are answerable to parliaments and electorates for implementation of policy and management of the public sector generally during their terms of office (Saunders 1985: 15).

In terms of the first form of accountability, it is difficult for the Federal government to monitor the expenditure of its specific purpose payments other than by attaching detailed conditions to its Section 96 grants. Even then, the Commonwealth is not legally permitted to scrutinise the expenditure of specific purpose payments by State and Territory governments (Spedding 1993). With respect to schools expenditure, it is not possible for the Commonwealth to either dictate or scrutinise States' expenditure of Commonwealth funding because the money is pooled with States' and Territories' own-source outlays. The only way for the Federal government to supervise its expenditure on schooling would be to pay schools directly under its Section 51(23A) "benefits to

students" power, which would carry the threat of a legal challenge in the High Court (Birch 1975). Given the Commonwealth's status as a minor partner in schools funding, its policy influence would not be greatly increased by a more direct involvement in funding schools.

The most realistic way for the Commonwealth to improve accountability for schools funding would be through the second path of monitoring the extent to which the broad purposes for which its funds are provided are met. Answerability to parliament depends to a large extent on the quality of the performance information provided by governments. Although improved performance reporting is an essential counterbalance to the freedom of devolved public sector management, government agencies have been generally reluctant to provide meaningful performance information in meeting public accountability obligations (Clark 1994, MAB-MIAC Task Force 1992). Over the thirty years of its involvement in schooling, the Federal government has not met the most basic accountability requirements for specific purpose program expenditure (ANAO 1995). After examining both the financial and educational accountability arrangements for Commonwealth SPPs for schools, a parliamentary inquiry into accountability in Commonwealth-State funding arrangements in education concluded:

> Ninety per cent of Commonwealth education funding to the States is allocated to General Recurrent Funding and Capital Grants Funding. The Committee considers that the accountability requirements which attach to these particular funds are minimal, especially in relation to the magnitude of the funds involved (SEETRC 1995: 130).

In return for more freedom in the management of resources (inputs), governments are now expected to report reliably on the effectiveness (outcomes) of their policies and programs. This requires a clear identification of government policy objectives and the collection and publication of information on outcomes. The concept of accountable management assumes that "objectives can be determined and achieved, that inputs and outputs can be measured, and that relevant performance indicators can be constructed for all public sector activities" (Guthrie and Parker 1990: 456).

The Federal government is unable to report on the outcomes of its expenditure on schools because the policy objectives of most of its programs are not defined in educational terms. As discussed in Chapter Three, with respect to General Recurrent Grants (GRG), the Commonwealth ignores the fundamental principle that program goals should be defined in operational terms and program impact should be measured in terms of educational outcomes (ANAO 1995). The program objectives of GRG are defined in terms of inputs which are subsequently pooled with the inputs of State and Territory governments. Therefore it is impossible to measure the outcomes of Federal expenditure in either financial or educational terms.

In 1973, the Karmel report emphasised the importance of educational outcomes in determining the resource needs of schools. In 1995, the Senate Committee recommended the collection of data on educational outcomes "linked to the specific objectives of the program concerned" (SEETRC 1995: viii). But the Commonwealth continues to link its recurrent funding policies to financial objectives and refuses to measure its performance in terms of educational outcomes. Commonwealth funding

priorities for GRG are supposed to be determined by the resource "needs" (or inputs) of government and non-government schools. As a result, Commonwealth recurrent funds for schools have increased significantly since the Karmel report but there is no mechanism for evaluating the effectiveness of this expenditure. The General Recurrent Grants Program now accounts for eighty-two per cent of total Commonwealth expenditure on schooling. As funding under the General Recurrent Grants Program is not linked to the achievement of educational goals, the Federal government remains unable to assess the effectiveness of its major program of expenditure on schools.

The annual *National Report on Schooling* is the Commonwealth's main accountability instrument for its school education expenditure. But the *National Report on Schooling* has failed to deliver on its promise to provide meaningful information on educational outcomes. Its contents are predominantly focused on inputs and its outcome measures are too simple or too highly aggregated to shed light on school and system performance. The less than comprehensive information provided in the *National Report* means that the Commonwealth government is unable to report on either the performance of its own programs or on the outcomes of school education throughout Australia. The *National Report on Schooling* was a first step towards enhancing accountability for school education expenditure, but it should be possible to further improve the quality of performance information on schooling. In Chapter Three, I identified the policy goals of Australian schooling and illustrated the way in which educational outcomes could be measured. Such information is necessary to inform the public about the effectiveness of all public expenditure on schooling. But in order to improve the *content* of performance information on schooling, the *process* by which it is collected must change.

The Federal government's efforts to monitor school performance have been obstructed by its reliance on State and Territory governments to provide information on educational outcomes. As they are major stakeholders in the provision of education services, it is not in the interests of State or Territory governments to provide information which may reflect adversely on their own performance. To improve monitoring of the impact of both Commonwealth and State education policies, the Federal government should commission an independent agency such as the Australian Bureau of Statistics to measure educational outcomes. The data produced by such an agency would enhance the capacity of parliaments at both the State and Federal level to hold an accountability dialogue with agencies responsible for public expenditure on schooling.

2 The impact of Commonwealth involvement in schools

As Commonwealth recurrent funding is pooled with State and Territory expenditure and the outcomes cannot be reliably measured, one might assume that the Federal government has had no impact on schooling in Australia. But although Commonwealth schools funding has not produced identifiable program outcomes, Commonwealth involvement in schooling has had an impact on the structure of school education provision and on school education policy. First, by assisting private schools to improve the quality of their education services, Commonwealth funding has supported the expansion of the private school sector. Second, as funding levels for non-government schools are determined by the Commonwealth, its involvement has led to high levels of subvention in average non-government schools' running costs. As a result, the net fiscal

benefit to governments from private schooling has diminished. Third, the Commonwealth's "needs-based" funding policy for non-government schools affects the competitive position of individual schools in the market for educational services. The different funding levels of non-government and government schools have prevented the development of consistent funding policies for all schools.

The capacity of State and Territory governments to address these issues is hampered by the Commonwealth's continuing financial involvement in schooling. For example, policies to promote client choice can only be implemented effectively if all schools – both government and non-government – are funded within a common policy framework. The payment of Federal specific purpose payments for non-government schools *through* the States prevents State and Territory governments from making any changes to this area of funding policy. Since the introduction of the Enrolment Benchmark Adjustment in 1996, State education systems have borne full financial responsibility for new non-government schools. The Commonwealth therefore determines funding policy for the non-government sector while States bear the financial responsibility for new non-government schools. The existence of a separate Commonwealth funding system for non-government schools creates policy anomalies which can only be addressed by returning the responsibility for all schools to one level of government.

3 Towards the reform of Commonwealth schools funding

> Any attempt to rationalise the extent of overlapping and duplication between levels of government in the Australian federal system will confront a number of hindrances: institutional, attitudinal, and political (Wiltshire 1990: 1).

If the Commonwealth withdrew from the recurrent funding of schools, States would have responsibility for both education policy *and* funding policy in respect of government and non-government schools. For the first time since 1969, States would be free to develop policies for both government and non-government schools within a common funding framework. The capacity for policy development in respect of both public and private schools would improve. Commonwealth withdrawal from recurrent schools funding would also reduce the size of total specific purpose payments to the States and Territories, thus achieving one of COAG's objectives for the reform of Federal financial relations. The Commonwealth would still be able to pursue national policy objectives through its capital and targeted programs of financial assistance.

As the Federal government allocates $3 billion per year to schools' recurrent funding, the transfer of these funds to untied Financial Assistance Grants would leave $700 million a year in capital and targeted programs that could be directed to national policy goals. The retention of Commonwealth control over capital and targeted programs would be consistent with the historical patterns of Commonwealth involvement in schooling. Prior to 1969, the Federal government was reluctant to become involved in schools funding because school education was the policy responsibility of State and Territory governments. Since Federation, the pattern of Commonwealth intervention in schooling was to pursue selected national policy objectives with the consent of State and Territory education authorities. The unique circumstances of the post-war years led to demands for Commonwealth financial assistance to alleviate the funding burden faced

by government and non-government schools. Although the Federal government introduced a specific purpose program of recurrent funding for schools in response to these demands, its financial objectives could have been achieved if the additional Commonwealth assistance had been paid through untied Financial Assistance Grants (FAGs).

For the Commonwealth's withdrawal from recurrent schools funding to be successful, State governments would need to accept the Federal government's continuing policy role in schooling and its right to pursue national educational objectives. While State governments are well placed to pursue the major social policy goals of school education, the Federal government has a role in ensuring that schooling contributes to national social and economic development. In the 1960s, human capital theory strengthened the economic rationale for national involvement in schools policy. Since 1985, the Federal government has identified economic policy goals as a basis for its involvement in schooling (Karmel 1985) and has developed new targeted programs to pursue economic policy objectives.

In the past, the efficacy of Commonwealth involvement has been undermined by poor definition of policy objectives, inadequate performance monitoring and its focus on inputs in determining funding priorities. In the future, the Federal government should ensure that its targeted programs are linked to specific national policy goals yet do not impede the State government's capacity to manage their education systems. It could look to early programs such as the Soldiers' Children Education Scheme for models of policy initiatives which were delivered effectively by the States on the Commonwealth's behalf. The Commonwealth should also improve its capacity to monitor the effectiveness of school expenditure by commissioning an independent agency to monitor school performance. The States' agreement to the establishment of such an agency under a protocol that guarantees it regular access to schools, should be a condition attached to the Commonwealth's withdrawal from the recurrent funding of schools.

The Commonwealth's targeted and capital programs should remain the key policy instruments for pursuing a national schools agenda. Although the Ministerial Council has made an important contribution to the development of national policies for schools, it would be unrealistic to expect all national policy issues to be addressed through collaboration. National education policy is not the major priority of State and Territory governments and the Ministerial Council is less accountable for its policies than the Commonwealth government. Although the Ministerial Council remains an important forum for reaching agreement on national policy issues, the Commonwealth will always require funding instruments to enable it to pursue national policy objectives.

In negotiating the transfer of Commonwealth recurrent schools funding to untied grants, governments should try to minimise the impact of the change on the funding status of non-government schools. Non-government schools in Victoria and New South Wales would be particularly disadvantaged if the distributive impact of the Grants' Commission's fiscal equalisation formula is passed on to schools. The impact of the reform could be alleviated through the negotiation of phase-in arrangements with the Commonwealth Grants Commission. As the non-government sector caters for one-third

of all students, State governments can be expected to continue to support non-government schools. Nevertheless, funding for non-government schools would be subject to the same budgetary restraints as government schools if it was returned to the States.

Conclusion

The Federal government has made a significant financial contribution to Australian schooling and has successfully pursued national policy goals. But the past thirty years of Commonwealth specific purpose payments to schools has compromised the policy making capacity of State and Territory governments. The anomalies created by the Commonwealth's involvement in schooling cannot be addressed until the recurrent funding of both public and private schools is returned to one level of government. As school education remains the Constitutional responsibility of the States, the Commonwealth should transfer its recurrent schools funding to untied Financial Assistance Grants (FAGs). By transferring its general recurrent funding to FAGs, the Federal government would return policy and funding responsibility for all schools to one level of government. While this may cause some changes in the funding position of private schools, public policy for schools can only improve if funding and policy issues are the responsibility of one level of government.

The Commonwealth has a legitimate role in pursuing national educational policies and should continue to do so through its programs of capital and targeted assistance, and in the Ministerial Council. The information on school and system performance remains inadequate to meet public accountability at both the State and the Federal level. Public accountability for education expenditure would improve if the Commonwealth government commissioned an independent agency to monitor school performance. Such an agency would enable both governments and the public to make informed judgements about the effectiveness of Australian schooling. The Federal government should continue to pursue issues of national policy and public accountability for schools funding, but there is no policy justification for the continuation of Federal involvement in the recurrent funding of Australian schools.

Appendix One

Common and Agreed Goals For Schooling in Australia

1. To provide an excellent education for all young people, being one which develops their talents and capacities to full potential, and is relevant to the social, cultural and economic needs of the nation.

2. To enable all students to achieve high standards of learning and to develop self-confidence, optimism, high self-esteem, respect for others, and achievement of personal excellence.

3. To promote equality of education opportunities, and to provide for groups with special learning requirements.

4. To respond to the current and emerging economic and social needs of the nation, and to provide those skills which will allow students maximum flexibility and adaptability in their future employment and other aspects of life.

5. To provide a foundation for further education and training, in terms of knowledge and skills, respect for learning and positive attitudes for life-long education.

6. To develop in students:
    - the skills of English literacy, including skills in listening, speaking, reading and writing;
    - skills of numeracy, and other mathematical skills;
    - skills of analysis and problem solving;
    - skills of information processing and computing;
    - an understanding of the role of science and technology in society, together with scientific and technological skills;
    - a knowledge and appreciation of Australia's historical and geographic context;
    - a knowledge of languages other than English;
    - an appreciation and understanding of, and confidence to participate in, the creative arts;
    - an understanding of, and concern for, balanced development and the global environment;
    - a capacity to exercise judgement in matters of morality, ethics and social justice.

1. To develop knowledge, skills, attitudes and values which will enable students to participate as active and informed citizens in our democratic Australian society within an international context.

2. To provide students with an understanding and respect for our cultural heritage including the particular cultural background of Aboriginal and ethnic groups.

3. To provide for the physical development and personal health and fitness of students, and for the creative use of leisure time.

4. To provide appropriate career education and knowledge of the world of work, including an understanding of the nature and place of work in our society.

Source: Australian Education Council (1989) "Common and Agreed National Goals for Schooling in Australia" cited in AEC (1992) *National Report on Schooling in Australia 1991* p. 17.

Appendix Two

Income of non-government schools, by source and type of school, several years

Income Source by Type of School	1974	1976	1977	1979	1981	1986	1991	1992	1994
	%	%	%	%	%	%	%	%	%
Catholic Primary									
Private	51	35	36	32	27	21	23	22	22
Commonwealth	29	43	43	45	48	55	53	54	56
State	18	21	21	23	24	25	24	24	22
Other Primary									
Private	75	65	65	62	57	47	50	47	46
Commonwealth	12	19	19	22	24	35	32	36	37
State	12	16	16	16	18	18	19	18	17
Catholic Secondary									
Private	60	37	35	35	29	25	29	29	30
Commonwealth	25	41	41	41	45	51	47	47	49
State	15	23	24	25	25	24	24	23	21
Other Secondary									
Private	79	67	68	62	56	56	58	59	61
Commonwealth	11	16	16	19	25	27	25	25	25
State	9	15	16	18	19	17	16	16	14

Sources: CSC (1984a) *Options for Commonwealth Funding of General Recurrent Resources for Australian Schools,* Canberra, February; CSC (1984b) *Funding Policies for Australian Schools.* MCCETYA (1996) *National Report on Schooling in Australia 1994, Statistical Annex,* Carlton, Victoria: Curriculum Corporation; SC (1978) *Some Aspects of School Finance in Australia, a Discussion Paper,* Canberra, October.

Appendix Three

Policy Objectives of General Recurrent Grants Program

Objectives

The specific objective for the General Recurrent Grants Program is to help government schools with the recurrent costs of school education so that they can offer students educational programmes directed towards the achievement of the Commonwealth's priorities for schooling. Those priorities ares aimed at ensuring that all students are allowed to realise their full potential, so that they leave school with the knowledge, skills and attitudes appropriate to their post-school destinations, and they have a sound foundation for undertaking further education and training, participating successfully in the workforce, and contributing to and benefiting from Australian society. Those priorities also include support for the principles of access, choice, equity and excellence in schooling by encouraging the provision of a strong, viable and diverse selection of schools from which parents can choose what is best for their children.

Source: DEETYA (1997), *Commonwealth Programmes for Schools, Quadrennial Administrative Guidelines 1997-2000*: 2.4

Appendix Four

Commonwealth Programs for Schools: a summary

Commonwealth Programs for schools have changed little since the Karmel (1973) report. While the configuration of Targeted Programs changed in the 1990s, the basic program structures of the General Recurrent Grants (GRG) and Capital Grants have remained the same. This appendix provides a summary of technical aspects of Commonwealth schools programs under the following headings:

A. General Recurrent Grants
B. Targeted Grants
C. Capital Grants
D. Education Resources Index (ERI)
E. The New Schools Policy
F. The adjustment mechanism
G. The Enrolment Benchmark Adjustment (EBA)

A. General Recurrent Grants

The General Recurrent Grants Program provides funding for all students in government and non-government schools on a per capita basis. Every student enrolled in an eligible school receives funding. All students in government schools attract the same level of per capita grant. In the non-government sector, the level of per capita grant differs between students on the basis of the funding category of the school. The funding category of the school is determined by its relative need for assistance, based on its level of resource use, or private income. As most of the private income of private schools is determined by school fees, funding categories reflect school fee levels. Since 1984, schools have been allocated to one of twelve categories, as shown in the table below.

Seventy per cent of schools are in Categories 10-12. The Catholic school systems are all funded at Category 10, except for the Western Australian system, which is Category 11. The 30 per cent of schools in the lower funding categories have received no real increase in their level of per capita funding for over ten years, while those in the higher categories have received substantial increases in funding. The schools in Categories 1-3 have gradually declined in numbers over the years. Between 1989 and 1994, the total number of enrolments in Category 1-3 schools declined by 2,588 students. Over the same period, enrolments in Category 4-12 schools increased by 49,094 students (McKinnon 1995: 12).

Grants from State and Territory governments differ from State to State. State and Territory governments provide grants to non-government schools worth, on average, half the value of the Commonwealth's grants, but the size of their contributions differ considerably between schools and between States. In South Australia, for example, secondary schools in Category 1 receive total funding from Federal and State governments worth only 20 % of the average cost of a government school student (ie. 12

% from the Commonwealth and 8 % from the South Australian government). In Queensland, by comparison, Category 1 secondary schools receive total per student funding worth 27 % of the average cost of educating a child in a government school (ie. 12 % from the Commonwealth and 15 % from the Queensland government)[1]

Table **Commonwealth recurrent grant per student in government and non-government schools 1998**

ERI	Funding Category	Primary ($)	Secondary ($)	Examples
Non-government schools				
88+	1	501	795	The King's School, Parramatta, NSW
76-87	2	669	1,054	Mentone Girls Grammar, VIC
51-75	3	836	1,222	Brisbane Grammar School, QLD
46-50	4	1,018	1,603	Presbyterian Ladies' College, Armidale
41-45	5	1,218	1,776	Caulfield Montessori School, VIC
36-40	6	1,347	1,965	Ipswich Girls' Grammar School, QLD
31-35	7	1,478	2,157	Aquinas College, Manning WA
26-30	8	1,627	2,382	Special Schools for disabled students
21-25	9	1,814	2,655	John Calvin School, Albany WA
16-20	10	1,955	2,854	Catholic school systems, all States except WA
11-15	11	2,110	3,078	Catholic school system, WA
0-10	12	2,272	3,320	Boys Town, Engadine, NSW
Government schools				
		379	559	All government schools

Sources: DEETYA (1998) *Commonwealth Programmes for Schools Quadrennial Administrative Guidelines 1998.* Commonwealth of Australia *Gazette* No. P24, 11 September 1992

The highest funded non-government schools (eg. Category 12 in New South Wales) receive total grants worth 66 % of the average cost of educating a child in a government school – taking into account the contributions from both the Commonwealth and the State governments. The Commonwealth's grant to Category 12 schools is approximately 45 per cent of the average cost of a child in a government school and the remaining 21 per cent contributed by the New South Wales government. The highest funded Category 10 secondary schools – in Western Australia – receive total funding worth 60 per cent of average government school costs, consisting of 40 per cent from the Commonwealth and 20 per cent from the Western Australian government (MCEETYA 1996: 38).

B. Targeted Grants

Under the Karmel funding plan, it was intended that the Commonwealth's educational policy objectives would be met through the implementation of targeted programs in

[1]These estimates are based on 1994 data from MCEETYA (1996) *National Report on Schooling in Australia 1994, Statistical Annex,* pp. 37-39 using data on Federal and State per capita grants in 1994, and the national average per capita expenditure on government schools for the 1993-94 financial year. The difference between States reflect the different levels of State grants. For example, Category One secondary schools in Queensland received only $933 per student from the State government while the South Australian government paid only $482 per student to Category One secondary schools in 1994. Commonwealth grant levels are uniform throughout Australia.

specific areas. While the Committee was of the opinion that the "major share" of funding should go towards "a general underpinning of recurrent resources in the schools" (Karmel 1973: 5.24), it also formulated a scheme of "special supplementary grants to schools having a high proportion of children who are likely to require a greater-than-average share of educational effort, and hence expenditure" (Karmel 1973: 5.25). The government therefore earmarked about one-third of its total grants to Disadvantaged Schools ($50 million), Special Education ($43 million) and Teacher Development ($10 million). To ensure that the grants were spent on the pursuit of Commonwealth policy goals, the programs were administered separately from State education programs. The Disadvantaged Schools Program, for example, was administered by regional committees of stakeholders such as parents, teachers and community members. Although the State Education Departments established the Committees, they only had one representative on them. Eligible schools were declared disadvantaged on the basis of a socio-economic index, and once "declared", they received a significant level of assistance per student each year. Committee-based administrative arrangements were also typical of the Special education program and the Country Areas Program, introduced a few years later.

Targeted Programs were the only avenue through which government schools could obtain Commonwealth assistance directly. The targeted programs represented real Commonwealth intervention in the processes of schooling. They were, however, minor programs focussed on achieving what were claimed to be national policy objectives. Of all Commonwealth SPPs, the targeted programs were the only area in which Commonwealth policy objectives were pursued with disregard for State policies. While outcomes data were not collected to enable us to assess the impact of the programs, in operational terms, they were the most authentic of "tied grants" in the sense that the money was spent on the purposes that the Commonwealth specified and could not be absorbed into State own-purpose outlays or re-directed to State policy priorities.

Although the programs provided significant levels of supplementary assistance to individual schools for specific purposes, over time, these funds were often combined with State government funding targeted to the same policy goal. This coalescence of policy objectives led to the eventual broadbanding of the major targeted programs in 1994, where State governments were given more freedom to spend the resources under the new National Equity Program. While the older targeted programs were broadbanded in 1994, at least a dozen targeted programs were not included in the National Equity Program[2]. These programs all reflected recent policy initiatives which the Commonwealth was not prepared to entrust to State education authorities.

In 1997, the Federal government abolished the National Equity Program and re-grouped the targeted elements into five priority areas: Literacy, Languages, Special Learning Needs, School to Work and Quality Outcomes. The first three policy areas (Literacy, Languages and Special Learning Needs) were to be "included in one agreement for each

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[2] eg. School Languages, Education Centres, Projects of National Significance, Curriculum Development Projects, Gender Equity in Curriculum, Gender and Violence Project, Vocational Education in Schools, Australian Students Prize, Quality Schooling Program, National Professional Development Program for Teachers, Aboriginal Education Strategic Initiatives. Key Competencies (DEET 1994 *Commonwealth Programs for Schools 1994, Administrative Guidelines*).

of the three education sectors in each State and Territory" while the remaining two areas were "to be subject to separate contracts with funding recipients" (DEETYA 1997a: 2.80). Although the Disadvantaged Schools element was abolished, the remaining targeted elements still operate as they did under the National Equity Program, with different allocation formulae and different payment procedures. Meanwhile, a similar number of new policy priorities within the targeted and national priority programs remain under the control of the Commonwealth Minister. This is typical of past practice when if the Commonwealth wishes to achieve a specific policy objective, it introduces a new targeted program for the purpose.

C. Capital Grants

Commonwealth capital grants for school science laboratories were introduced in 1964. The justification for introducing these grants was concern about the educational adequacy of Australian schools, particularly in science. The impact of the successful Russian launch of Sputnik 1 in 1957 led to widespread criticism of the state of science education by academics, science teachers and members of the business community (Smart, 1978). The perception of a crisis in education was also fuelled by the rapid rise in secondary school participation from the impact of the post-war baby boom and increasing secondary school retention rates (Mathews, 1983: 137). The Menzies government responded by providing capital funding for science laboratories in 1964 and for school libraries in 1968, distributed between government and non-government schools on the basis of per capita secondary enrolments.

The capital program expanded after the Karmel report and the funding was allocated for general building requirements on a needs basis. In the early 1990s, the capital program received additional funding to assist with the policy goal of increasing Year 12 retention rates. The determination of recipients of capital grants is not decided by the Commonwealth government. Commonwealth capital grants for government schools are distributed by the State governments. In the 1980s, DEETYA devolved the allocation of grants to non-government schools to Block Grant Authorities (BGAs) which are comprised of representatives of the non-government sector. In general, there is a Catholic BGA and a non-Catholic BGA in each State, which are responsible for determining project priorities and allocating the resources on behalf of the Federal government. DEETYA establishes guidelines for the selection of capital projects which require the BGAs to distribute the resources on the basis of socio-economic need. While the Federal Minister has final approval over the funding decisions of the BGA, they have rarely questioned the BGA's recommendations.

Capital grants have remained approximately 10 per cent of total schools funding for many years, and provide a mechanism for the Commonwealth to supplement the efforts of State and non-government education authorities without intervening in the day-today operations of schools. Capital funding is also a mechanism through which the Commonwealth can pursue national policy objectives, in association with education authorities.

D. Education Resources Index (ERI)

The Education Resources Index is a mechanism for assessing the financial capacity of non-government schools applying for assistance under the General Recurrent Grants Program. The first system of Commonwealth recurrent funding in 1969 was simply to provide the same level of assistance per student enrolled in all non-government schools, differentiated only by their level of education. During the Karmel inquiry, the needs of schools were assessed on the basis of financial information provided by schools and school systems. This information revealed considerable differences in the operating income of non-government schools. The Karmel Committee recommended that the government move away from the system of uniform per capita grants because of the wide disparities in resource use levels between non-government schools (par. 6.47). The Karmel Committee recommended that schools be grouped into eight categories of need, which since 1984 has been 12 categories of need, and receive different levels of government funding.

The Commonwealth obtains information from non-government schools about their operating expenses through an annual financial questionnaire completed by private schools and school systems. This information is used to compile an Education Resources Index (ERI) which rates the school's level of resources relative to other schools and determines its funding category. In the 25 years since the scheme began, the problems associated with ranking schools according to their levels of private income have become increasingly difficult to resolve. The main problem is that all non-government schools would like to be in the higher funding categories because they would receive more money from government. Many of the schools ranked as well-resourced have hired professional accountants to apply tax minimisation techniques to reducing the level of the school's assessable income. The financial questionnaire creates an opportunity for schools to seek loopholes in the wording of questions and to manipulate their data to maintain a more favourable ERI rating in convoluted and highly undesirable ways. It is also possible to omit assets and expenditure by linking a school's accounts to other bodies, such as a parish church or religious order. Although the questionnaire attempts to find a common basis for gathering information from different school accounts it still fails to produce an accurate picture of a school's capacity to raise private resources, because of the problems inherent in pursuing such an objective.

As the Commonwealth has become aware of these techniques, it has progressively tightened its assessment criteria and closed off loopholes in its financial questionnaire to the effect that very few schools are now able to change their funding category. In the post-1996 funding reassessment, only five out of the 38 schools whose ERI indicated a change to a more favourable funding category were allowed to change category due to the maintenance of effort and private income tests. On the other hand, 22 out of the 42 schools whose ERI indicated a less favourable funding category subsequently changed category. An independent evaluation of the ERI by KPMG Management Consultants concluded that "the additional ERI requirements tend to – at best – lock (schools) into an existing funding category or – more commonly – put the school into a lower funding category"(KPMG 1996: 71).

As the level of competition between non-government schools has increased, older well-resourced schools have felt particularly aggrieved by the needs-based assessment process. The funding category of new non-government schools is determined by *projected* income and enrolments, therefore new non-government schools are able to choose their funding category by setting their fees at a low level. As existing non-government schools are assessed on the basis of *past* expenditure, the needs-assessment process "locks" an existing high-fee school within a high funding category and gives it no scope to change its clientele, its fee structure or its educational provision.

Their ERI assessment (ie. their level of government funding) now drives the direction of many schools' educational policy and planning. In a routine evaluation of the operation of the General Recurrent Grants Program, KPMG Management Consulting pointed out that some schools wanted to receive data relating to their ERI calculation more promptly from DEETYA in order to "use the data to monitor their ERI and set budgets to reflect the direction in which to head or maintain their ERI" (KPMG 1996: 52)

Over time the basis for calculating the ERI has become so complex that it is difficult to understand exactly how assessments are obtained. The KPMG evaluation ran some simulations to assess the effect of changed circumstances on a school's ERI, using the financial data from 12 different schools. The result was that the ERI was sensitive to the changes in some schools but not in others. The evaluators concluded, "for these 12 schools, changes in the ERI were more likely to be caused by the structure of the ERI than a change in the school's circumstances"(KPMG 1996:70).

Under the ERI system, the implicit level of subsidy received by families in educating their children is determined solely by the extent to which their chosen school has been successful in manipulating the ERI system. The capacity of parents to afford the fees at their chosen school is not taken into account. For example a high-income family attending a Catholic systemic secondary school attracts a Commonwealth government subsidy that is 3.5 times the grant that they would attract if their child attended a Category 1 school. The capacity of the family to pay is not taken into account as their entitlement depends on the funding category of the school. Low-income families receive less government assistance if they choose to send their child to a school in Categories 1-3. Yet Harrison claims that eighteen per cent of low-income families currently attend non-government schools (Harrison 1996: 14).

DEETYA defines the ERI as an indicator of "the capacity of a school to generate funds on its own behalf". (KPMG 1996). In their evaluation, KPMG Management Consulting concluded that the ERI was a poor indicator of need. It noted that schools with very different socio-economic circumstances could have the same ERI; some schools with large asset bases were in high funding categories; and that the ERI worked against the needs of established schools.

In 1996, when the Coalition government abolished the New Schools Policy guidelines for non-government schools (discussed in chapter 4), this also removed some of the restrictions designed to stop manipulation of the ERI. At the same time, the Federal

Minister for Schools, Dr David Kemp implemented an election promise to review the Education Resources Index (ERI).

E. The New Schools Policy

In 1985, the former Commonwealth Schools Commission developed a set of guidelines governing the approval processes for non-government schools seeking Commonwealth financial assistance that became known as the "New Schools Policy". Under the guidelines, new non-government schools were required to enrol a minimum number of students and funding was provided up to a maximum enrolment level. In 1988, an additional restriction was introduced limiting the funding that new independent non-government schools could receive to the lower funding levels between Category 1 and 6 regardless of their assessed level of "need" as measured by the Education Resources Index (Department of Employment, Education and Training 1989: 14). This forced new non-government schools to charge higher fees than the majority of non-government schools in Category 10 which received 50 per cent more funding per student than schools in Category Six. (Minister for Employment, Education and Training 1988). In 1988, the government also doubled the enrolment minima for new non-government schools.

The rationale for the guidelines was to uphold the principle of planned educational provision in opposition to competition in schooling. The policy aimed to ensure that new non-government schools would not have an adverse impact on existing government and non-government schools. The main effect of the guidelines was to ensure that most new non-government schools were established in regions of population growth (such as new suburban centres) rather than in areas of population decline.

The New Schools Policy was not particularly onerous to the Catholic school system or established independent schools. Most of the growth in the non-government sector during the 1980s was in small schools that were established to foster particular religious or cultural beliefs or educational philosophies. Of the 100,000 additional students in non-government schools between 1985 and 1995, 80,000 were in schools that were independent of the Catholic system or the established Independent schools. As these schools were not within a system, they were the most affected by the New Schools Policy.

The New Schools guidelines appeared to have the desired effect of restraining growth in the non-government sector. Between 1985 and 1995 the proportion of total students enrolled in non-government schools increased by an average of 0.32 percentage points per year, compared with an annual average increase of 0.69 percentage points per year between 1980 and 1985 (ABS Cat. No. 4221.0). By creating disincentives for the establishment of new schools and restricting funding levels to the lower six categories, the decisions of May 1988 had the effect of restraining average per capita outlays on new non-government schools. The New Schools Policy was abolished in 1996 to the effect that any school that received registration from a State or Territory government would be eligible for Commonwealth funding. This is likely to increase the number of non-government schools that are eligible for high levels of government funding, and

increase competition for students between schools in the government and non-government sectors.

F. The adjustment mechanism

In the early years, Commonwealth expenditure on schools was linked to movements in average government school recurrent costs. As these costs rose significantly, in the early 1980s, the Commonwealth Education Department introduced a Schools Prices index which reflected real changes in the cost of education services, such as equipment and materials, but primarily movements in teachers salaries. During the 1980s, as the Prices and Incomes Accord took effect, the Schools Prices Index fell behind the Consumer Prices Index and the Gross Non-farm Product Deflator. In its 1992 negotiations with the non-government schools lobby, the Federal government agreed to change the adjustment mechanism from the Schools Prices Index (SPI) to Average Government School Recurrent Costs (AGSRC). Although the Schools Prices Index was the most accurate reflection of changes to school costs, the non-government schools lobby groups pressured the government to change to AGSRC. They also argued that the components of the AGSRC index should be changed to include costs specific to non-government schools.

The government agreed to introduce AGSRC and to review its components in consultation with the non-government school lobby. The Department commissioned a consultant, Coopers and Lybrand Pty. Ltd. to review the AGSRC and their work was directed by a Steering Committee upon which all the non-government school interest groups were represented. The representatives of the non-government school sector supported the widest possible definition of Average Government School Recurrent Costs, arguing that expenditure such as redundancy payments should be included in the index. The Consultant's report reflected the advice of its Steering Committee and when the Department introduced the AGSRC index in 1993, it included redundancy payments as a cost. In 1993, the new Victorian State government embarked on a major re-structuring of its education system and offered thousands of redundancy packages to its teachers. As Victoria is the second largest education system in Australia, this major outlay had a significant impact on the AGSRC. In 1994, when the annual movement in the Consumer Prices Index was less than one per cent, the AGSRC moved by 5 percentage points. This gave a windfall increase in funding to non-government schools through supplementation for increases in AGSRC in 1994. The Federal government subsequently removed redundancy payments from the AGSRC index, however the increases had already been paid into the funding base.

The average current expenditure per student in non-government schools between 1961-2 and 1994-5 is shown in Figure 4.1. The data exclude capital funding but include expenditure on targeted programs. As General Recurrent Grants is the largest program, the funding trend reflects increases in GRG over the period. The expenditure is deflated by GNFP(e) which is not identical to the adjustment mechanisms used by the Federal government to adjust for cost increases in expenditure. The apparent stability in Federal funding during the 1980s, shown in Figure 4.1, is due in part to movements in the Schools Prices Index (SPI) falling behind the GNFP(e) as well as the government's

decision not to include a 4 per cent wage increase for teachers in the Schools Prices Index in 1988.

G. The Enrolment Benchmark Adjustment (EBA)

In its 1996 Budget, the Federal government announced a mechanism to ensure that the cost of all new places in non-government schools would be paid for by cuts to Federal expenditure on non-government schools. The mechanism to do this is called the Enrolment Benchmark Adjustment. Under the Enrolment Benchmark Adjustment, $1712.50 would be deducted from expenditure on State schools for every new student that enrolled in a non-government school from 1 January 1997. As non-government schools catered for 29.4% of total student enrolments in 1996, $1712.50 would be deducted from State schools for every student that enrols in a non-government school above the 29.4 % enrolment benchmark. (Department of Employment, Education and Training 1996). In addition to the cut of $1712.50 per student, the Federal government will save an average of $406 per student against its forward estimates of recurrent expenditure on government schools as that sector's share of total student enrolments declines. The Enrolment Benchmark Adjustment of $1,700 plus the saving of $406 against the forward estimates equals $2,106. This amount will fully offset the average expenditure of $1,900 per student that the Federal government currently allocates to non-government schools.

The total amount to be recovered under the Enrolment Benchmark Adjustment will be taken out of the $916 million per annum in recurrent funding allocated to State schools by the Federal government. According to the Federal government's revised estimates in October 1996, the government expected to cut $178 million from State schools recurrent expenditure over the next four years under the Enrolment Benchmark Adjustment (Hollway 1996:16). In addition, the Federal government will make a saving of $42 million against its forward estimates of expenditure on students in government schools. In total, this decrease of $220 million in Federal expenditure on State schools will fully offset the Federal government's additional outlay of $206 million on new places in non-government schools over the next four years.

Since January 1997, all new places in non-government schools have been fully offset in this way. The Enrolment Benchmark Adjustment is a permanent mechanism for funding future enrolment growth in the non-government sector from reductions in Federal expenditure on State schools. The Federal government justified the cut of $1712.50 per student with the argument that State governments "save" twice that amount each time a student moves from a government to a non-government school. This argument suggested that the State schools will lose the same number of students as the non-government sector gains, which is not accurate. The size of the total student population is increasing, therefore State schools will not be "losing" any students, even though their enrolment share is declining. State school enrolments were projected to increase by 3,944 students between 1996 and 2000. Therefore State Education systems will not enjoy any real "savings" from the increase in enrolments in non-government schools but they will be required to bear one hundred per cent of the cost.

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